The Management Review

MAY, 1953

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AMERICAN MANAGEMENT ASSOCIATION

M. J. DOOHER, *Editor;* VIVIENNE MARQUIS, *Associate Editor*
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Volume XLII No. 5

MAY, 1953

The Management Review

A Partial List of Contents

General Management

THE TRANSIENTS

FOR A QUICK twinge of superiority there is nothing quite like driving past one of the new Levittown-like suburbs. To visitors from older communities, the sight of rank after rank of little boxes stretching off to infinity, one hardly distinguishable from another, is weird, if not appalling. Yet these are not the homes of little cogs and drones. They are the dormitories of the next managerial class. These junior executives, research workers, young corporation lawyers, engineers, and salesmen share a three-fold bond: they are (1) between twenty-five and thirty-five, (2) organization men, and (3) all on the move.

It is significant enough that there are now so many of them that whole towns have to be built to hold them; more significant, it is these unostentatious, salaried nomads who will be running our business society 20 years from now. The growing importance of the transients has been obscured by a sort of economic time lag; organization people don't make the big money, and they are making less real income than they did ten years ago. But it is the organization man who now makes the decisions that most affect the lives of others, and who will really determine the future.

Today, undoubtedly, most college men almost automatically see their future in terms of the salaried life of an organization—and in the wake of this shift to the big organization is the moving van. Certainly the recruit does not join up because he *wants* to move a lot, and it is often in spite of it. But moving, he knows, has become part of the bargain. "We never plan to transfer," as one company president explains, a bit dryly, "and we never make a man move. Of course, he kills his career if he doesn't. But we never *make* him do it." The fact is well understood; it is with a smile that the recruit moves—and keeps on moving, year after year.

It is not just more moves per man. Even companies reporting no increase in the number of times each individual moves report an increase in the sheer number of men being moved. Moreover, records of long-distance movers show that the greatest single group among their customers, upwards of 40 per cent, consists of corporation people being transferred from one post to another.

Corporations never planned it quite that way. Decentralization and expansion, rather than deliberate personnel policy, have determined the pattern. Companies have systematized it, to be sure; moves are settling into more of a rhythm, and almost invariably they are sweetened with a raise. By and large, however, the question of the man's personal development—however emphasized when the boss breaks the news to him—has been secondary to the day-to-day necessity of filling vacancies out in the empire. However, some companies are coming to believe that periodic transfer may be a positive good in itself; and even where no immediate functional reason exists, it might often be important to move the man anyway. Deliberately exposing a man to a succession of environments may

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be the best way of obtaining that necessity of the large organization, the well-rounded executive who can fit in anywhere.

The rate at which mobility will continue to increase will depend greatly, of course, on the amount of plant expansion in the years ahead. But turnover is not just a function of industrial expansion. Turnover begets turnover; the necessity of movement has a way of becoming a virtue, and this applies to the individual as well as the company.

According to a new study by the management-consultant firm Booz, Allen & Hamilton, there are now 29 more personnel changes per 100 management jobs than before the war, and a great part of the increase is caused by switches from one company to another. In most cases, the primary reason for switching was not money, increased security, or location, but opportunity for advancement. Moreover, many of the job changers were among the most obviously successful of their age group. Ironically, it is the corporation itself that taught the executives how to fly. Because it has exposed its young men to a succession of environments and new contacts, cutting old roots has not the terrors for them that it has for those who have never moved.

The fact that managers circulate so easily tends to inhibit the growth of total allegiance to the company; conceivably, however, it could stimulate another kind of fealty. Might not this freemasonry of organization men evolve into a circulating national elite more and more closed to outsiders?

Certain considerations suggest that such an elite may never have a chance to jell. The spread of American education, the growing accessibility to culture, have so ironed out regional and social differences that a vastly greater number of Americans can now compete on even terms in what might be called a national society. And not only are more people available for the managerial group; the prestige and income differences between it and other groups have been greatly lessened.

What has already happened to the salaried transient suggests that if mobility continues to increase it may produce a rootlessness that can have far-reaching effects on the younger members of management, on their children, and on the organizations some will one day head. How much to the good, or bad, this change will be is a question that cannot yet be answered. But for the moment at least, there is one hopeful conclusion we can draw: If the sheer fact of change is true, it is a mistake to think that the routes of mobility are being closed; that we are finally shaking down into a stable system; that we are, at last, on a plateau. Quite the opposite; the evidence indicates that our society has never been more dynamic—and the best thing about our system, perhaps, is that there isn't too much of it. Not just yet, anyway.

—WILLIAM H. WHYTE, JR. *Fortune*, May, 1953, p. 112:10.

CONSERVATISM that opposes reform is not conservatism but arterial sclerosis. True conservatism is animated not by a passion for power, privilege, and profits, but by the passion to preserve society, which is perhaps the noblest passion of man. It anticipates necessary reforms and makes them out of ethical consciousness, and before its back is against the wall. And it does not confound liberty with irresponsibility or anarchy. When privilege no longer equals duty, its days are numbered.

—DOROTHY THOMPSON

CAN WE HAVE PEACE AND PROSPERITY?

DOES THE United States have the kind of economy that can stand peace? The Communists say no—and many Americans have lately begun to ask whether ours is the kind of economy in which peace can be successfully combined with prosperity. That we are asking this question now is testimony to the unpredictable times in which we live; until recently, many of us were wondering whether a large defense program might not wreck our economy.

It would be foolish to argue that a large program of government spending, which could be counted on regardless of the state of business, would be of no value in stabilizing the economy. Yet it is important to bear in mind that large government spending, whether for defense or for civilian purposes, is not an *essential* condition for prosperity and for a satisfactory growth of employment and production.

If defense expenditures were cut back to the pre-Korean level or below, the government would be buying over $30 billion less of goods and services than it is now. There would unquestionably be difficult problems of transition if this shift were made quickly. The crucial question, however, is this: How could the economy be prosperous and grow at a satisfactory rate with the Government buying $30 billion less a year than it is buying today?

The answer to that has two parts—one pertaining to the behavior of consumers, the other pertaining to investment expenditures and the conditions that determine them.

American consumers, on the whole, have always been good spenders, and conditions of living in the United States have generally been favorable for spending. Consequently, for consumers as a whole immediate expenditures have always risen rather promptly as personal incomes after taxes have increased. In the long run, the ratio of consumption expenditures for personal incomes after taxes has remained about the same—roughly 95 cents out of every dollar of personal income after taxes. Thus, it is clear that if large cuts in government defense spending were to permit the government to reduce its direct and indirect tax take from individuals by about $30 billion a year, real outlays for consumer goods would rise with little delay by about $27 billion or $28 billion a year.

What would happen to investments if peace were to make possible an enormous cut in defense outlays?

Some drop from the present and recent high rate of investment spending is to be expected sooner or later. But even if defense spending were to fall to pre-Korean levels or below, the demand for investment-seeking funds could be counted on in most years to exceed the supply.

The reason lies in the large and rapidly growing volume of industrial research in the U. S. economy. The demand for investment funds in America hinges mainly upon the rate of technological discovery, which creates a demand for investment funds by developing new or improved kinds of (1) consumer goods, and (2) equipment and processes which replace previously used equipment and processes. In the long run, the demand for investment-seeking funds is slightly in excess of the amount that is provided by the savings of individuals and corporations. Hence, the expansion of bank

credit—one way by which the supply of investment funds has been kept equal to the demand.

A great drop in defense spending would cause substantial shifts in the pattern of demand for investment funds; but it would not reduce the capacity of industrial research to create new investment opportunities. Furthermore, while a sharp reduction in taxes would lead to some increase in the absolute volume of personal savings and to changes in the sources of corporate savings, its effect on the total volume of saving would not be great.

It would be unrealistic, of course, to refuse to acknowledge that there have been compensations for the heavy costs of the defense program. By putting the economy under greater pressure than occurs even in times of strong prosperity, it has undoubtedly raised employment and forced industry to face new problems, to learn new things, to accelerate the development of new processes and the improvement of new materials. Yet even when allowance is made for the favorable effect of the defense program on the total amount of employment and production, the quantity of goods available for consumption per capita today is about 10 per cent less than it otherwise would have been. Hence, the economic reasons for desiring an early end to large defense expenditures, while of far less consequence than the non-economic reasons, are in themselves of major importance.

—SUMNER SLICHTER. *The New York Times Magazine*, April 26, 1953, p. 9:30.

Industry Helps Fight the Battle of Ideas

U. S. INDUSTRY has become an accepted ally of the State Department in its effort to counter Communist propaganda abroad. The formation of the Private Enterprises Cooperation Program by the State Department was American business' invitation to help tell the people of other countries the truth about the U. S. Today, almost 150 companies and publishing houses are shipping magazines, exhibits and literature to Europe, South America, the Near East, and the Orient.

The International Harvester Corporation, for example, supplies information material through 725 outlets overseas. Other firms ship thousands of copies of their house organs, and big-name popular magazines have contributed hundreds of thousands of newsstand return copies. Some participating companies have, on their own initiative, undertaken other measures to sell America abroad. One of these, National Cash Register, has scholarships for students in Europe.

Republic Steel stresses America heavily in its overseas advertising. Standard Oil Development Co. is working up eight possible projects to further the campaign. Histories of American industries are going to Europe by the bushel. U. S. Steel has shipped 10,000 copies of its publication, *Steelmaking in America*, and the Bohn Aluminum & Brass Corporation has supplied 5,000 anti-Communist posters, printed in Portuguese, for distribution in Brazil.

Two years ago, magazine publishers were asked by the State Department if they'd turn over their unsold overseas copies for free distribution. Response to date has been generous. At latest count these publications are turning over their leftovers: *Time, Life, Newsweek, American, Woman's Home Companion, Collier's*, and the *Reader's Digest*. Companies are encouraged to handle on their own the overseas distribution of the magazines they collect, but those who cannot may send magazines to the U. S. Book Exchange, 1816 Half Street, S.W., Washington 25, D. C.

—*Iron Age* 3/12/53

HOW FAST IS AMERICA GROWING?

FROM NOW until 1960, our population is expected to increase at the rate of 2 million annually. How to meet this expansion is a challenge that virtually every industry and every community must face.

Back in the 1930's, when the black clouds of depression hung over the nation, thousands of married couples felt they couldn't afford children, and other thousands of young people couldn't afford to marry. Against this background, population experts were predicting that 1960 would be a "leveling off" year. By that date, they said, our population would stand at 157 million persons, preponderantly middle-aged, and no further growth would be in sight.

Actually, we reached the 157-million mark last July. The newest projections for 1960 give us a population of 165,174,000 (low) or 179,812,000 (high). Since 1946 we have added some 16 million people to our population, and in the next seven years 14 million more will come along. The low projection for the year 2000 is 200 million, with other estimates as high as 300 million.

This phenomenal growth presents staggering problems in itself—but there is more to the picture than mere figures. Economic answers we have never had to seek before must be found, because the composition of the population is utterly lopsided. As a consequence of the low birth rate of the 1930's, relatively few people are coming of marriageable age today. Conversely, the tremendous birth rate of the '40's has, in effect, turned this decade into a king-sized Children's Hour.

By 1956 we shall have underfoot some 18 million moppets between the ages of five and nine. This is 7 million more than in the first year after the end of World War II; 4 million more than at present. In each of the next two years more than 1 million additional children will be enrolled in elementary schools. This child population is all consumer. It must be fed, clothed, housed, doctored, educated, and amused.

Another factor entering importantly into the economic picture is the needs of our older citizens. There will be more opportunity for the mature worker in this decade and early in the next, when the high-school ages will be dominant, because of an actual shortage of young men entering industry. Even today the task of producing is beginning to fall on the more mature, giving us a labor force slightly older than normal. By 1960, there will be 15 million citizens past the age of 65.

Surveying the broader implications of America's current economic position, and its inherent potentialities, Vergil D. Reed, associate research director of the J. Walter Thompson Company, recently declared:

> Far from having reached economic maturity, or the hopeless senility attributed to it in the '30's, our economy has just outgrown the awkward, self-conscious age of puberty . . . Strangely, many business and government leaders—and professors of economics, too—have grossly underestimated the vitality, stamina, and potentialities of the American economy. That has been true in the past. It is equally true today, when many are seemingly so busy looking for the hidden weaknesses that they persist in overlooking the obvious strengths. But faith based on facts rather than on blind optimism, not to mention blind pessimism, has in store for us wonderful future opportunities—if management, labor, and government use even a modicum of their joint intelligence and combined effort. The anvil of faith in

America will outlast many hammers of doubt. In fact, our economy is so strong that it has grown miraculously in spite of many mistakes by management, labor, and government alike. It will continue to do so, and the fewer the mistakes the faster it will grow.

The over-all economic picture is fabulous. Take, as a starter, the matter of feeding the population. The Department of Agriculture says we shall need 20 per cent more of everything by 1975. This means, among other things, 5½ billion pounds of meat, 30 billion pounds of milk, and 15 billion eggs.

The industrial maw is equally ravenous. Professor Sumner Slichter of Harvard looks ahead to 1980:

> The output of goods and services in the American economy, which was $246.7 billion in 1948, will be at least $416 billion (in terms of present prices), and it is more likely to be considerably larger—probably in excess of $550 billion a year. The lower estimate would mean an annual output of nearly $5,744 per worker, or roughly $2,377 per capita. In 1948 the output of goods and services was about $4,065 per worker, or $1,684 per capita.
>
> People will have far more leisure and will consume at least 50 per cent more per capita than now, and probably 75 to 100 per cent more.

The population doubled in the first 50 years of this century. Production figures went far beyond. Over-all production increased 372 per cent, materials consumption 153, minerals consumption nearly 600. We are now burning up 2½ times as much bituminous coal as we did in 1900, 26 times as much natural gas, and 30 times as much crude oil.

And there, in brief, it is. We face a time in which we must digest the effects of our growth, and only a dynamic economy will enable us to do so successfully. Detailed predictions of the economic future are impossible, for at any moment the country may put on blackface again and confound the statistics with the coy statement:

"I'se Topsy. I just growed."

—Laurence Greene. *Nation's Business*, February, 1953, p. 28:4.

Background for Success

FROM WHAT kind of homes do successful people come? Professor S. S. Visher, of Indiana University, studied 18,400 very successful people and discovered that the fathers of 70 per cent of them belonged to the professional or business classes. Over 23 per cent of the fathers were farmers, 6 per cent were skilled laborers, and less than 1 per cent unskilled laborers. He found clergymen, as a group, reared the largest percentage of successful sons and daughters; that in fact they had 2,400 times as many offspring in *Who's Who* as unskilled laborers. This conclusion about clergymen is borne out by other studies. Professor Visher thinks that the explanation may lie in the atmosphere of "serious thinking and thrift that is found in a clergyman's home."

—*This Week* 1/18/53

THE MAN who is worthy of being a leader of men will never complain of the stupidity of his helpers, or the ingratitude of mankind, or of the inappreciation of the public. These are all part of the great game of life, and to meet them, and not go down before them in discouragement and defeat, is the final proof of power.

—Elbert Hubbard

Work Simplification Invades the Concert Hall

WHAT MIGHT HAPPEN if work simplification principles were applied in the field of music as they are in industry is depicted in a report which comes to us from Great Britain,* written by a group of organization and methods men who had attended a concert at the Royal Festival Hall. Some excerpts follow:

"For considerable periods the four oboe players had nothing to do. The numbers should be reduced, and the work spread more evenly over the whole of the concert, thus eliminating peaks of activity.

"All the 12 first violins were playing identical notes. This seems unnecessary duplication. The staff of this section should be drastically cut; if a large volume of sound is required, it could be obtained by means of electronic amplifier apparatus.

"Much effort was absorbed in the playing of demi-semi-quavers. This seems an excessive refinement. It is recommended that all notes should be rounded up to the nearest semi-quaver. If this were done, it would be possible to use trainees and lower-grade operatives more extensively.

"There seems to be too much repetition of some musical passages. Scores should be drastically pruned. No useful purpose is served by repeating on the horns a passage which has already been handled by the strings. It is estimated that if all redundant passages were eliminated, the whole concert time of two hours could be reduced to 20 minutes, and there would be no need for an interval."

Carrying this analysis to the ultimate extreme, the tongue-in-cheek report concludes:

"The Conductor agrees generally with these recommendations, but expresses the opinion that there might be some falling-off in box-office receipts. In that unlikely event it should be possible to close sections of the auditorium entirely, with a consequential saving of overhead expense—lighting, attendants, etc.

"If the worst came to the worst, the whole thing could be abandoned, and the public could go to the Albert Hall instead."

* In a bulletin published by the Organization and Methods Division of H. M. Treasury.

"Waste Not, Want Not"

IN THE average home, each member of a family probably consumes one and a half ounces of pepper annually. But the Federal government during a nine-month period bought two pounds of pepper for every member of the Army. If a home has five or six light bulbs on hand for emergencies it would be considered adequate. But one government agency has a 93-year supply in stock. The AAA estimates that to keep the average family car going costs around $350 annually. Yet the government spends $526 apiece to operate and maintain its 190,000 non-military cars.

Similar waste characterizes much government administrative procedure. For example, a Congressional committee recently discovered that it cost $10,000 worth of red tape in one government bureau to lay off 32 unnecessary employees. In another case, the final cost to get rid of 25 superfluous government workers totaled $158,500.

—DR. GEORGE BENSON, President, Harding College, Searcy, Arkansas

I TRY never to forget that the foremost economic expert in Siam was called Prince Dam Rong!

—EMERSON P. SCHMIDT, Director, Economic Research Department, U. S. Chamber of Commerce

THE NEGRO WORKER: A DECADE OF PROGRESS

ONE OF THE great facts of U. S. history is that the Negro worker, no matter how ill-used, has remained deeply loyal to America, always hoping for the "Year of Jubilo," stubbornly telling himself

> The very time I thought I was lost
> The dungeon shook and the chain fell off . . .
> You got a right, I got a right,
> We all got a right to the tree of life . . .

The fruit from the tree of life is still rationed, and often bitter. America's 15 million Negroes are still denied the right to the pursuit of happiness on equal terms with whites. Negroes still do the meanest jobs and get the lowest pay; they must slowly wrest from their white fellows a table in a restaurant, a desk in a school, a smile, the privilege of praying in a white church or using a white swimming pool.

This is true on both sides of the Mason-Dixon line While the Negro is better off, economically and socially, in the North, the chains of prejudice can be as heavy in New York's Harlem or on Chicago's South Side as anywhere in the South. Yet everywhere in the U. S. the Year of Jubilo seems a little closer.

In 1942, in a brilliant study of the American Negro, the Swedish economist Gunnar Myrdal reported: "Negroes are in desperate need of jobs and bread, even more so than of justice in the courts and of the vote." This definition of the Negro's needs is strikingly out of date today.

For most Negroes the problem is no longer jobs, but better jobs; for some, it is no longer bread, but cake. The Negro wage earner today makes four times as much as in 1940 (compared to the white worker's 2½ times as much). The Negro's average yearly income is still only a little more than half of the white average, but 10 years ago it was only about 35 per cent.

During World War II a million Negroes went into defense industries. By and large, they have stayed in industry ever since. Nearly 11 per cent of all U. S. industrial workers are Negroes—twice as many as in 1940. Among U. S. skilled workers and foremen, 4 per cent are now Negroes, up from 2½ per cent in 1940. Among clerical and sales personnel, 3½ per cent are now Negroes, as against 1 per cent in 1940. Among women professional and technical workers, 7 per cent are Negroes, up from 4½ per cent in 1940.

One big trouble is that there simply are not enough qualified Negroes. Though U. S. industry will hire all the Negro engineers it can get, few Negro college students go in for science or engineering. They still favor the respectable, relatively secure professions, such as teaching, medicine, the ministry, and the law. In business, Negroes are generally in service lines; e.g., undertakers, barbers, cleaners, and the like. This is not entirely the result of discrimination; also to blame is the Negro's lack of confidence, which makes him underestimate his very real opportunities.

Today, many specific wedges are apparent in the wall of prejudice. Telephone companies in the North, all white until a few years ago, now employ 5,000 Negroes. Denver now has Negro bus drivers (long since a fixture in New York and Chicago). Detroit banks, in white neighborhoods, employ Negro tellers. Many Northern department stores hire Negro salespeople. In many important

industries of the South—e.g., Haspel, Chrysler, International Harvester, Glenn Martin, Firestone Tire & Rubber—Negroes work side by side with whites (only South Carolina still requires segregation in work areas).

The Negro's progress in the last decade would not have been possible without some moral progress by white Americans. Gunnar Myrdal put the central issue in these words: "If America by actual practice could show the world [that] the Negro became finally integrated into modern democracy, all mankind would be given faith again . . . and America would have spiritual power many times stronger than all her financial and military resources—the power of the trust and support of all good people on earth. America is free to choose whether the Negro shall remain her liability or become her opportunity."

—*Time*, May 11, 1953, p. 55:4.

Who Gets the Nation's Income?

THE LION'S SHARE of national income goes into the pockets of employees, according to figures compiled by Harding College at Searcy, Ark. The breakdown on distribution shows that 65 per cent goes to employees, 9 per cent to professional men and unincorporated business, 7 per cent to farmers, 4 per cent to landlords, 4 per cent to stockholders, 4 per cent to bond holders and other lenders, 2 per cent back into the business for expansion, and 5 per cent to taxes.

Research conducted by the University of Notre Dame reveals further that 73 cents out of every dollar of interest, dividends, and rent payments to individuals go to people with less than $100-a-week incomes.

—*Steel* 3/9/53

The Cost of Human "Downtime"

SICKNESS ABSENTEEISM accounts for an estimated yearly loss of 400 to 500 million man-days in industry. Reduced to its simplest terms, this means the equivalent of almost 2 million workers off the job for an entire year. The effect on production is evident in the impact on wages as well as profits. One rough estimate places the loss in workers' earnings through temporary disability at approximately $4.9 billion, with a corresponding loss of production. The indirect cost of absenteeism is estimated to run four or five times the direct cost.

Women are absent an average of 12 days a year, as compared to eight days for men. Women are out more frequently because of illness of short duration, but men have longer illnesses when they are sick. According to records of the U. S. Public Health Service, over one-half of the absences and over one-third of the days absent, for men and women alike, are attributable to the respiratory diseases. In this group, colds cause the largest number of absences.

—Office of Defense Mobilization, Health Resources Advisory Committee

THE AMERICAN SYSTEM of free enterprise has increased the number of jobs faster than our population has grown. In 1850 less than 320 out of 1,000 persons were employed, as compared to today's 420.

—*Foreman Facts* (Labor Relations Institute, 1776 Broadway, New York 19, N. Y.) Vol. 8, No. 12

Also Recommended • • •

INDUSTRY GETS READY FOR A HOT WAR—OR A COLD PEACE. *Business Week* (330 West 42 Street, New York 36, N. Y.), April 25, 1953. The possibility of a future cutback in military expenditures by the government makes it more difficult—and more important—than ever for top management to reach the right decision on how much war capacity should be included in its planning. This "special report" analyzes the major aspects of the problem, tells what a number of companies are doing to solve it in terms of their own situations, and discusses the probable effects upon business of government defense policy. The relative advantages of single-purpose, dual-purpose, and multi-purpose plants are considered in some detail, as is the problem of developing a managerial organization flexible enough to adjust quickly to possible all-out mobilization.

FUTURES UNLIMITED. By Philip Wernette. *Michigan Business Review* (School of Business Administration, University of Michigan, Ann Arbor, Mich.), March, 1953. Projecting the growth of the American economy in population, income, technology, and productivity, the author predicts that 50 years from now our productive capacity will have quadrupled and the average family's real income will have risen two and one-half times. Only possible obstacles to progress, he believes, are a disastrous war or a weakening in the spirit of free enterprise that might result from excessive government intervention in the affairs of private business.

"FREE TRADE IS INEVITABLE." *Fortune* (9 Rockefeller Plaza, New York 9, N. Y.), March, 1953. The advantages of a "trade not aid" policy in putting U. S. foreign policy on a solid economic foundation are weighed in this article, which describes activities among business organizations to promote lower tariffs and freer trade. Recommends four major policy changes in the interests of reducing trade barriers.

POINT 4 CORPORATIONS. By Tris Coffin. *Nation's Business* (U. S. Chamber Building, Washington 6, D. C.), April, 1953. The 127-word Western Hemisphere Trade Corporation bill, passed by Congress in 1942, offers American business a chance to reach new South American markets at substantial tax savings, this article points out. But knowledge of booby traps in the law is necessary if firms are to qualify for the tax exemptions. A company must prove to the government, for example, that 95 per cent of the gross income of the business set up South America comes from sources outside the U. S.; and know how to answer such questions as whether it can buy outside the hemisphere, sell to its subsidiary at cost or less, or include royalties from licensing arrangements and dividends from shares of foreign subsidiaries in its income statement.

GROWTH TRENDS IN THE ECONOMY. By Louis J. Paradiso and Francis L. Hirt. *Survey of Current Business* (Superintendent of Documents, U. S. Government Printing Office, Washington 25, D. C.), January, 1953. 30 cents. This report illustrates the wide divergence in output among industries and products from the immediate prewar period to the present and describes the characteristics of slow-growing, moderate-growing, and fast-growing industries. Although total output has been rising rapidly—about 5 per cent since 1940—the bulk of American industry grows only moderately or slowly, the authors point out.

ENGINEERING ECONOMICS. By William L. Swager. *Challenge Magazine* (34 Broadway, New York 4, N. Y.), February, 1953. 20 cents. The growing complexity of modern technology on the one hand, and of business and finance on the other, have made it increasingly difficult for management to reach the correct decisions in such areas as new product development and diversification of line. This article describes how the scientific method is used by researchers at the Battelle Memorial Institute to find answers to business problems which neither the engineer nor the management expert would be capable of solving alone.

CAN EXECUTIVES BE TAUGHT TO THINK? By Perrin Stryker. *Fortune* (9 Rockefeller Plaza, New York 20, N. Y.), May, 1953. Describes the techniques that a number of companies are using to improve and clarify the problem-solving abilities of their executives. One successful method described here is a "vertical conference" system by which American Cyanamid executives, after learning to work and think congenially on a wide range of problems, are trained to use techniques of creative thought for decision-making on the practical level.

Industrial Relations

PROMOTION FROM WITHIN: DOES IT REALLY PAY OFF?

MICHAEL G. BLANSFIELD
Chief of Employee Utilization
San Bernardino Air Materiel Area

How many times have we heard it proudly said: "We promote from within; tops for morale, you know!"—and how many of us have accepted that statement without question?

Do we actually know that in the long run a total internal placement program will spell maximum productivity from a happy and inspired work force? Or are we making a dangerous assumption by overlooking one salient factor: the need for the infusion of fresh creative energy, not just at the bottom of the organization but at all levels?

Let's consider the basic principles underlying the internal placement concept—the filling of all vacancies offering promotional opportunities from the ranks of the organization. This concept is based, first, on the premise that the organization already has the people with the potentialities to fill every position that may become vacant—excluding, of course, jobs on the lowest level. Second, it is based on the premise that internal placement will increase the productivity of the employee group by increasing their sense of job-security and by motivating them more strongly in the work situation.

Probably no one could find much fault with these assumptions; but are they comprehensive enough? Might there not be other factors that would offset or reduce this advantage?

Let's examine the typical junior executive who rises to his middle management position in an organization espousing this internal placement system. This man is undoubtedly well versed in the company's background, and thoroughly steeped in the procedures and programs, the philosophy and concepts, that are current in the organization. Here, however, is the danger point. Can this man, trained and developed in the policies of the organization, taught to work with them and for them, bring a sense of critical evaluation to his job? Has he the insight and creative ability that stem from a synthesis of varying work backgrounds? Unfortunately, the answer in a majority of instances is "No." All too often, the "one-firm" man is characterized by a narrowness of vision, a satisfaction with the status quo, a resistance to change not found in the individual who has been forced to learn and adapt to varying methods and philosophies. Because of this, in many instances, the "one-firm" man does not develop the versatility that is a necessary quality of the top-flight executive. Instead, he is often characterized by rigidity of thought—which he may proudly call "conservatism."

What is the answer to our problem? Does it lie in the extreme of a rigid system, or the extreme of no system at all? Or is there a golden mean?

I feel that such a mean exists, and that, once established, it can help the organi-

zation to realize the benefits of an internal placement program without risking its pitfalls. This mean lies in embracing the general philosophy of internal placement with a specific modification: namely, the opening of at least 10 per cent of the yearly vacancies occurring at each management level to external competition. By this I mean not that 10 per cent of the yearly vacancies should be automatically filled from outside sources, but rather that in these instances outsiders should be permitted to compete for the positions on an equal basis with organization personnel, selection to be made on the basis of the best qualified applicant.

As can be readily seen, even on the basis of the most objective evaluation, the outsider would not necessarily always secure the job; nevertheless, enough new blood could be infused to reduce the possibility of creative stagnancy. On the other hand, the promulgation of such a moderate policy would not be a severe threat to the present work force and should therefore meet little more than the minimal resistance aroused by any change.

In considering this or any other personnel policy, let us not forget that it was the restless, far-ranging mind of the pioneer that laid the foundation for this nation's greatness. Their versatility in the face of innumerable obstacles created the America of today. Only if we preserve this versatility, this mobility of the mind, can our country continue to grow and prosper.

PREVENTING VACATION HEADACHES

IN COMPANIES where vacation months mean scrambled schedules, endless "emergencies," or a losing battle to maintain quality and quantity standards, the obvious need is for a planned vacation policy. To be effective, this should include definite rules on the following basic questions:

Vacation period: May employees take their vacations whenever they wish, or must all vacations be taken within a prescribed period? What is the best period from the standpoint of operations or slack weeks?

Special requests: Will employees be permitted to take their vacations "out-of-season"? How should such requests be handled?

Extra vacation: Will employees be permitted to take extra unpaid vacation time? If so, should a maximum total vacation period be set for all employees, or should this remain flexible? It is wise to provide some sort of review procedure if extra time off is allowed. Otherwise, some department heads may be generous with their approval, others strict. If you are anticipating a slack period which may require lay-offs, consider concentrating vacations into that period. Seasonal employers already do this, with the approval of their employees.

No Vacation: Will employees be permitted to work instead of taking vacations? Should some special procedure be taken in such cases? Would the union have any objection? Particularly in the case of skilled people who are badly needed in their jobs, a request for vacation pay instead of a vacation may be very welcome—but each such request should be carefully evaluated.

The amount of time supervisors spend in working out vacation schedules can be greatly minimized by advance preparation. Each supervisor should receive a complete list of all the people in his department, with the amount of vacation time and pay to which each is entitled. He should be instructed to pass the information along immediately, so that disputes or errors can be quickly resolved.

Management should also give the supervisor full details of vacation policy decisions so that he can answer employee questions. The supervisor should also be given instructions on how to proceed in cases not covered by policy. He should be required to submit a completed scheduling chart by a certain date, and some decision should be made on how to handle subsequent requests for changes in vacation. If over-all operational efficiency requires adjustments in some departments, it is important to make sure the supervisor knows about it quickly.

—*Labor Checklist* (Research Institute of America, Inc., 292 Madison Avenue, New York 17, N. Y.), March 18, 1953, p. 45:3.

LONG-RANGE RECRUITMENT is the idea behind a "Career Carnival" recently initiated by Bell & Howell Co., Chicago. Employees were asked to bring their sons and daughters to an all-day session, where each young participant was helped to appraise his or her personal interests and special abilities. Small discussion groups were then organized, with discussions and counseling on career opportunities in a number of fields, among them merchandising, law, engineering, and business administration.

—***Personnel Executives' Newsletter*** **(Deutsch & Shea, Inc.) 12/4/52**

"When do you start your vacation, Evarts? Officially, I mean."

—Courtesy of *Collier's*

Unionization in Major Labor Markets

THE EXTENT to which workers are unionized varies widely in different labor market areas. This conclusion is highlighted in a new study by the Bureau of Labor Statistics, based on community wage surveys of 39 major labor markets located in 28 states and comprising a population of over 52 million.

Factors contributing to differences in degree of unionization include: the type of work (plant or office); the geographical region; and the industry affected.

Over three-fourths of the plant workers in all industries, in the areas studied, were employed in establishments having collective bargaining agreements. The degree of union organization, however, varies considerably. For example, over 90 per cent of plant workers in Detroit, Pittsburgh, San Francisco-Oakland, and Seattle are employed by companies covered by collective bargaining agreements. However, in seven major labor markets only 20 to 49 per cent of plant workers are in unionized firms. The unionization of plant workers is generally more extensive in the Middle Atlantic, Midwestern and Far Western cities than in New England or in the South.

The most highly organized industry groups are transportation and public utilities, with over 90 per cent of all plant workers employed by unionized establishments. At the other extreme, retail trade is the least-organized group.

Unionization of office workers is much less widespread than among plant workers. In only five major labor markets is the proportion of office workers in unionized establishments (in all industries) greater than 20 per cent, and in no instance does it exceed 33 per cent. On an industry basis, organization of office workers is noteworthy only in transportation and public utilities, where over half of the workers are employed by companies with collective bargaining agreements.

—*Labor Policy and Practice* (Bureau of National Affairs, Inc.) 2/12/53

Keeping Tabs on Employees' Addresses

ONE OF THE perpetual headaches that afflicts nearly every personnel department is the problem of keeping changes in employee addresses and telephone numbers up to date. Few workers realize how important it is for them to let the office know when they have moved, or have had their phones changed, or have taken on an additional dependent.

To help keep its personnel records up to date, the Broadway Department Stores, Los Angeles, inserts a "Change of Address" card in the time racks twice a year. The cards, which are the same size as the time card but of a different color, are placed in the time racks in the morning. When the worker comes in he fills out the card (tables and pens are provided in each area) and replaces it in the rack. Before lunch—to avoid confusion during the noon-hour punchout—the timekeeper pulls out the completed change-of-address cards. An absentee's card remains in the rack until he returns and fills it out.

—*Employee Relations Bulletin* (National Foreman's Institute) 3/18/53

TO MAINTAIN CONTACT with desirable prospective employees (college students and others who have been interviewed), an industrial company places their names on the house organ mailing list for one year. Another company sends its house organ to the homes of former employees who are eligible for rehiring. This continuing contact, it feels, has influenced a number of former employees to apply for reinstatement.

—*L.O.M.A. Bulletin* (Life Office Management Association, New York 17, N. Y.) 2/15/53

WHAT WORRIES NEW WORKERS?

MANAGEMENT frequently loses sight of the fact that the probationary period for new employees works both ways. From the company's viewpoint, the new employee is on probation. From his point of view, however, it is the company that is on probation; he looks the company over to decide whether or not he wants to work there permanently.

To find out specifically what factors influence the new employee, the Owens-Illinois Glass Company, Toledo, asked a number of newly-hired men and women just what bothered them during the first days of employment. The answers they got related mainly to three things: success on the job, training, and social acceptance.

Those who felt uneasy about their ultimate success on the job said they were worried by such questions as these: "Will I like the job? Will I be successful in the long run?" Others, concerned about the immediate present, wondered: "How am I doing? What is expected of me? Am I doing my job correctly? Am I fast enough?"

Most people, the company learned, were confident about the quality of their work but concerned about their speed. The new worker hopes that his boss won't be impatient and won't yell at him, and that the other employees won't resent his slowness.

Acceptance by co-workers looms large to newcomers. Some newly hired employees wonder whether people will like them and be "nice" to them. They wonder, too, whether the supervisor will be friendly and fair.

The novice is also likely to be troubled by anxieties connected with learning the job. These are some of the questions in the mind of the new worker: "Will I be able to learn this mess at all? Are they giving me enough time? Does my instructor know what he's doing? Is he telling me right? Just what is this job? What else might I be asked to do?" Most problems about job instruction, it appeared, are caused by unqualified or unfriendly instructors.

Miscellaneous worries cited by newcomers included confusion as to supervision ("Who is this fellow? What's his relationship to me? Do I have to take orders from him?"); confusion as to procedures such as punching a time card; and the fear of being left all alone to sink or swim.

—*The Foreman's Letter* (National Foremen's Institute, Inc.).

Suggestion Boom

THE SUGGESTION IDEA has come a long way in recent years. The National Association of Suggestion Systems announced recently that among more than 400 large companies and government agencies using suggestion systems last year, employees turned up almost one million ideas, 27 per cent of which were adopted.

Suggestion systems are quite a business in themselves. Last year more than $5.5 million was awarded in suggestion prizes to employees. The largest of all was given a few years ago to a bronze caster for the Cleveland Graphite Bronze Company. After winning $28,000 for suggesting a new technique for his job, he promptly retired and bought himself a farm. Next largest award, $10,441, went to an employee of Johnson and Johnson, the pharmaceutical house.

—*Commerce* 11/52

CONTROLLING OFF-THE-JOB ACCIDENTS

THE NEARLY 100,000 deaths and several million injuries each year that happen away from the job represent a terrible waste of human life and resources—a waste that has now begun to claim the serious attention of industry. Even managements that have made real efforts to find some solution to this problem, however, have often found it extremely difficult to deal with off-the-job accidents.

A recent study suggests certain definite reasons for this situation. First, a lack of opportunity for control and for applying safety engineering techniques gives the problem an aura of intangibility. There is also a belief that employees and members of their families resent recommendations which may appear to be an intrusion into the home. Moreover, even those who do not regard this psychological factor as a serious obstacle soon find that they have little to go by in developing an effective, long-range program.

A recent study of management attitudes on off-the-job safety, made among 260 leading companies by the American Mutual Liability Insurance Company, showed that 64 per cent of the companies surveyed had no organized plan of activity in effect relating to off-the-job safety and health. Moreover, there was little evidence among the other 36 per cent of any fully-organized off-the-job safety programs.

Yet a majority of the companies indicated a strong belief that off-the-job safety activity would have a most beneficial effect in the reduction of lost working time and improvement in workers' morale. In the minds of safety engineers who analyzed the results of the survey, there was no doubt that management recognized the problem, saw the benefits that could be derived from a productive program, and wanted to do something about it.

In addition to the obvious losses that off-the-job accidents cause industry, the worker and the family, there are three others of genuine importance.

The first of these losses arises from the adverse psychological effect that a disabling accident to some member of the worker's family has on his ability to do his job safely. Casualty insurance companies' reports on industrial accidents disclose many instances where the disturbing effect of trouble at home contributed to on-the-job accidents and hampered individual production.

The second loss arises from absenteeism. It cannot be disputed that off-the-job mishaps result in considerably more days of involuntary absence from work than on-the-job accidents. One company which employs slightly less than 3,000 people analyzed its group accident and health claims and discovered that off-the job accidents had caused 10,444 lost days in the year 1951.

The third loss is strictly a dollars-and-cents one, but nevertheless important. Considering that group insurance premiums run higher, on the average, than workmen's compensation costs, cost-conscious management should have a strong interest in keeping group insurance losses under the best possible control. Clearly, one important factor in reducing these costs can be the reduction of accidents.

The underlying philosophy that must govern any effective program of on-the-job accident prevention is that management must take an active and enthusiastic

interest in promoting it. Unquestionably, one of the biggest factors in the control of on-the-job accidents has been management's leadership in organizing and co-ordinating plant safety programs. Off-the-job safety can be a simple carry-over of this influence.

Specifically, there are seven principles upon which any off-the-job safety program should be founded:

1. It must not be treated casually by management. It should become a part of management's scheme of things.

2. It must have intelligent and experienced direction and control. Often, results may best be achieved by having an employee safety committee conduct the program; but whatever method for control and direction may be followed, it must never be forgotten that participation in such a program is always on a voluntary basis.

3. It must be conducted with continuity and regularity of effort.

4. It must aim to create employee interest.

5. It must provide a never-ending supply of show-how and know-how.

6. It must employ every possible means to interest the family group in doing the things that will make the home safer for living.

7. It must provide means for orderly investigation of home accidents.

—*Loss Control* (American Mutual Liability Insurance Company, Boston 16, Mass.), Vol. XXX, No. 3, p. 25:7.

Good Communication Pays Off

DOES A GOOD communications program affect the opinions and attitudes of employees toward their job? Very much so, according to a recent study undertaken by the National Industrial Conference Board which covered two similar plants operated by the same company—one with superior employee communications, the other with a minimum of communications.

In Plant B (good operation) the foremen hold monthly work-unit meetings with their men (on company time) during which they report on company matters that concern the particular group. The meeting then is thrown open for questions, discussion, and suggestions. Plant A never held such meetings. The results in the two companies are shown up sharply in replies to the survey question: "Have you been able to get your ideas up to the top men?" Where 32 per cent of Plant A's employees answered "hardly ever," almost half (49 per cent) of employees at Plant B replied "almost always."

The sense of participation and recognition fostered among Plant B's employees by the work-unit meetings is evidenced in answers to the question: "Do you feel a part of your company?" Fully 62 per cent of Plant B felt they "really belonged," compared with only 29 per cent at Plant A. Further, only 14 per cent at Plant B checked off "I feel I just work here," while a majority (42 per cent) of Plant A indicated they felt that way.

A significant 45 per cent at Plant B thought their company was "one of the very best," whereas only 20 per cent at the other plant thought so.

Aspects of the company's operation which employees wanted to know more about, in the order checked most frequently, were: the company's future prospects; how promotions are decided; how American business works; products the company makes; pay of company officers; reasons for firing workers; company profits; how pay is figured; use made of union dues; and the union's objectives.

—*Tide* 1/30/53

REST PERIODS: EQUIVALENT OF "TWO WEEKS WITH PAY"

THE MORNING BREAK for coffee and similar devices that whittle away the working day will cost the average employer the equivalent of two weeks' wages per employee this year. That's the staggering cost of giveaway time, now at a peacetime peak.

A recent study of 102 large and small companies reveals that seven out of 10 companies pay their employees for periods of idleness. (While the study, conducted by the Employers' Association of Detroit, was concentrated on Michigan firms, the findings provide a pretty accurate reflection of free-time practices throughout the nation.)

The idle pay periods have a dozen different names. In most offices and a few industrial plants, the giveaway is known as "coffee time." In other plants it's a "rest period," "fatigue time" or "personal allowance period." It's also called "start-up time," "Shut-down time," "washup time," "clean-up time," and "recreation time."

Only 24 of the 102 firms covered by the survey reported no giveaway time. Of the 78 companies granting free time, 44 give both male and female employees paid "rest" or "coffee" periods; 21 concerns limit coffee-rest periods to females, and six firms permit only males to take the time off. Seven of the 78 do not allow coffee-rest breaks. All 78 companies allow "washup" periods. Forty-six allow one washup a day; 31 firms permit two washups, and one company gives its workers time for three washups.

The giveaway made its greatest gains in wartime. The practice, particularly the "coffee hour," was encouraged by the Federal Government as a morale builder for workers engaged on armament jobs.

However, in the opinion of some labor-relations experts, giveaway time has done more to destroy morale among male workers in industrial plants than build it. These authorities contend that free periods have been responsible for the vast increase in gambling in manufacturing plants, and—in some cases—bootlegging. As a result, morale suffers.

The survey disclosed that the most prevalent practice among employers granting coffee-or-rest periods is two 10-minute breaks per day—one in the morning and a second in the afternoon for both males and females. Fifteen of the firms follow this practice.

Eleven companies give both male and female employees two 15-minute periods per day; 13 firms give only females two 15-minute periods per day; eight firms give both sexes one 10-minute break a day. Other firms covered in the study reported various non-uniform practices.

How much does the coffee hour cost the employer? At the rate of 20 minutes daily, an employee working a five-day, 40-hour week would be given 100 free-time minutes per week. Stretch that over a work year of 50 weeks and it comes to 83 hours and 20 minutes—better than two 40-hour weeks.

The survey showed that fewer than half of the 78 companies allowing free time have employees engaged on piece-work. And in a majority of the plants paying on a per-piece-produced basis, only a small fraction of employees enjoying free time privileges work on incentive jobs.

—ROBERT LUND. *Journal of Commerce*, May 4, p. 4:1.

Selling Workers on Plant Relocation

IF YOUR COMPANY is planning to close one of its plants and open a new one some distance away, you may be wondering about ways to persuade employees to move to your new location.

When General Foods closed its Los Angeles plant two years ago, over 40 per cent of its employees moved to a new plant in San Leandro, nearly 500 miles away. Currently, the company is planning to transfer its New York City operations to White Plains. A special bulletin was distributed to employees early in 1951, when the possibility of the move first developed. Now it has prepared a booklet which tells employees why the company is relocating its offices, what provisions have been made to help employees solve personal problems arising out of the move, and what the new location will be like.

The company has set up a housing office to help employees find new homes, and plans to pay all moving expenses. Employees will be reimbursed for unused rent or lease-cancellation penalties, and additional commuting expenses caused by the change will be paid for periods up to six months. Employees who can't make the move and who remain with the company to within three months of moving day will receive a termination allowance, while those who stay until moving day will get a special service bonus equal to two weeks' pay.

—*Labor Policy and Practice* (Bureau of National Affairs, Inc.) 12/11/52

Prolonged Illness—Who's the Biggest Problem?

WHICH EMPLOYEES account for most of the long-lasting illnesses and absences from work? The old men, who should have been retired long ago, perhaps? The women, who may not take their jobs very seriously? The unskilled, who have no craft to be proud of?

Actually, it's none of these. A sample survey of some 40,000 industrial and commercial workers, conducted by the Research Council for Economic Security, showed skilled male workers took by far the greatest number of long absences for illness, per capita.

The Council warns against applying the figures from its small sampling to other groups. But it admits that the difference between male skilled workers and all other classifications—male, female, unskilled, supervisory, management, clerical—appears "significant."

Male workers, the study showed, in general had a higher rate of prolonged illness (9.2 per 1,000) than women (8.1). Clerical workers had rates of 6.4 among men, 5.6 among women. Male supervisory workers had an astoundingly low rate of prolonged illnesses—2.9 per 1,000—perhaps misleading because the sample was small. But the male skilled workers' rate was 14.9. "Prolonged illness" was defined as a non-occupational illness keeping the employee from the job for more than four weeks.

—*Modern Industry* 2/15/53

A MIDWEST industrial organization has hit on a unique title for the executive who directs its personnel activities. He is known as "Vice President in Charge of Spirit." This is not so fanciful as it first appears, when you consider that the spirit of an industrial organization is the most important thing in it—the force that creates and keeps alive an organization's reputation.

—*The Pick-Up* (United Parcel Service, 331 East 38 Street, New York 16, N. Y.) 2/53

Also Recommended • • •

WHY LABOR LEADERS ACT THAT WAY. By William H. Peterson. *Factory Management and Maintenance* (330 West 42 Street, New York 36, N. Y.), March, 1953. Though individual labor leaders talk, think, and act differently, certain common factors exert a strong influence on their working methods as well as their fundamental goals. Six of the most important of these common factors, as analyzed by the author, include the lack of security felt by labor leaders whose memberships are being courted by rival unions, the pressure by rank-and-filers that encourages unreasonable bargaining demands, and the fear that cooperation with the company may be interpreted by union members as collusion and betrayal of the workers' interests.

WOMEN IN INDUSTRY. *Loss Control* (American Mutual Liability Insurance Company, 142 Berkeley Street, Boston 16, Mass.), Volume XXX, No. 3. Ways for industry to protect the health and safety of its millions of women employees are described in this special issue. Included are recommendations on selection and placement, employment standards, clothing, skin care, special facilities and equipment, after-work activities, and the function of industrial nurses in the safety program.

WORKERS RELUCTANT TO RETIRE. *Industrial Bulletin* (New York State Department of Labor, 80 Centre Street, New York 13, N. Y.), February, 1953. Analysis of a recent survey of pension plans in New York State covering about 300,000 workers seems to indicate that older workers prefer to stay on the job several years beyond the scheduled retirement age. This article discusses experience to date under 13 currently operating plans for which detailed data were available, and considers the factors—such as ill health, declining abilities, and unfavorable economic conditions in certain industries—that were responsible for the majority of retirements.

TRENDS IN THE EMPLOYMENT OF COLLEGE AND UNIVERSITY GRADUATES IN BUSINESS AND INDUSTRY, 1953. By Frank S. Endicott. *Journal of College Placement* (2721 Fidelity-Philadelphia Trust Building, 123 South Broad Street, Philadelphia 9, Penna.), March, 1953. $1.00. Reports on the findings of a major survey which covered 176 companies representing more than 20 types of business, all of which are actively engaged in the recruitment of college men and women. Tables accompanying the text give data on the number of graduates employed by different companies for different jobs, average starting salaries, and average increases in the course of the first year of employment. Well over half of the companies replying felt that today's graduates are not overpaid.

THE LOCAL UNION MEETING. By George Strauss and Leonard R. Sayles. *Industrial and Labor Relations Review* (Cornell University, Ithaca, N. Y.), January, 1953. From their observation of 75 meetings of representative union locals, the authors conclude that the typical union meeting, despite certain basic weaknesses, is essentially democratic. The typical pattern, as they describe it, is low attendance, boring reports, parliamentary and factional wrangling, and irrelevant discussion; but two-way communication does take place between membership and leaders.

ORGANIZATION OF OCCUPATIONAL HEALTH SERVICES IN SMALL PLANTS. By Seward E. Miller. *Occupational Health* (U. S. Government Printing Office, Washington 25, D. C.), February, 1953. Non-occupational sickness keeps two million employees off the job every day—persuasive evidence, in the author's view, that more extensive industrial health programs are needed among small companies, which employ 70 per cent of the nation's workers. Among factors essential to the effective operation of in-plant health services Dr. Miller cites the following: provision of basic treatment and care, advice on health problems, prevention and control of health and safety hazards, and adequate medical record-keeping.

WORKER TURNOVER BITES INTO PROFITS. By Boris Blai, Jr. *Personnel Journal* (Swarthmore, Penna.), March, 1953. Turnover costs, this article shows, can be accurately analyzed in terms of specific operating and administrative expenses—and such an analysis may well reveal that each quit is costing the company hundreds of dollars. Inadequate employee selection, careless assignment, and deficiencies in the training program are among the possible causes of excessive turnover listed by the author.

Office Management

HOW EFFICIENT IS YOUR OFFICE LAYOUT?

FOR EFFICIENCY, convenience, and safety, good layout is important in the office as well as in the factory. Many of the same principles of workflow apply equally in both cases. Moreover, such factors as light, ventilation, housekeeping, and employees services are important in any type of employment.

These are some of the basic details which should be considered in evaluating your office layout:

1. Work should flow through the office with a minimum of backtracking, and the transportation distance of work should be at a minimum. If possible, desks should be so arranged that each worker will receive his work from the person behind or beside him.

2. Employees using the same machine should be grouped, and noisy machines should be segregated wherever possible. Even where noise is not considered excessive, ceilings of sound-absorbing materials may be desirable.

3. Desks should face in the same direction, at least three feet apart, though when two employees work together they may face each other. Aisles should be at least four feet wide.

4. Employees should not face windows, unshielded lamps, or other sources of glare. If illumination depends largely on daylight, employees engaged in the most exacting visual work should be located nearest the windows.

5. Employees should be placed in front of or around the person having supervision over them.

6. Files should be placed against walls or railings where possible, and exceptionally heavy equipment should be placed against walls or columns.

7. Those who have frequent callers should be near entrances. Where private offices are necessary, they should be planned to avoid cutting off natural light and ventilation from persons working in adjoining rooms. In offices with controlled lighting and ventilation, however, this problem is not important.

8. Floor maintenance should be given special attention. Electric outlets and extension cords should be arranged to avoid tripping hazards.

9. Glass doors should be painted with some conspicuous design near eye level to prevent people from walking into them.

—*National Safety News*, March, 1953, p. 28:1.

RESULTS of a recent survey covering more than 1,000 secretaries in 39 states indicated that about 63 per cent of the girls polled are perfectly or well adjusted to their jobs and bosses; 25.5 per cent are average; 5 per cent are below average; and 1.5 per cent are inadequately adjusted. Another 5 per cent fell into a "doubtful" class. The survey disclosed that 25.3 per cent of the girls polled expressed dissatisfaction with their bosses, and 9.6 per cent felt their bosses didn't take their views seriously.

—*The Office* 3/53

WORK MEASUREMENT IN ACCOUNTING OPERATIONS

A HIGHLY effective plan for measuring production on various accounting operations is helping to keep the lid on office costs at the Southern Bell Telephone & Telegraph Company, Atlanta, Ga.

The plan is based on periodic time studies, which are used to develop time allowances for each operation considered measurable. The "allowed time" is then related to the number of units handled and a time allowance per unit is developed.

As an illustration, in the disbursement office complete studies are made for one month during a period of two or three years to determine the time required for detail operations, such as payroll work for weekly paid employees, payroll work for semi-monthly paid employees, payroll deduction work, maintenance of employees' service records, labor statistics reports, tax reports, etc. The volume of units handled is then calculated in terms of pay checks issued, number of deductions, number of employees, etc., and a production unit developed for each operation.

Thereafter, the employees keep time records according to natural segregations of the work and a production rating arrived at by comparison of the allowed time with the actual hours required to do the job.

To be more specific, the time for computing wage payments to plant department employees is regularly considered as one operation—that is, plant payroll work. This operation involves:

1. Posting time from work reports to payroll forms.
2. Determining the total hours to be paid for.
3. Determining differential payments and recording on payroll forms.
4. Maintaining records of sickness payments.
5. Determining taxable and non-taxable wages and recording on payroll forms.
6. Adding taxable and non-taxable wages, differential payments and tax, and recording on payroll forms.

Each of these operations is studied separately during the study period and then a consolidated unit used.

The studies made to develop the allowed time per work unit are somewhat detailed and require some extra work on the part of the employees involved, which would be irksome if done on a continuing basis. The plan, however, is so designed that once common time allowances are computed for the detail operations, the total allowances for natural segregations of the work can be arrived at through simple addition.

Thus a measurement rating is developed for the office as a whole; the reports for each area are consolidated and a summary prepared. Those responsible for the management of the offices are very much interested in the ratings attained by the units of their offices; and they make periodic studies of the production on each operation performed in a unit, and even of the production of the individual clerks.

The use of a measurement plan for office work does not in any way conflict with a recognition of the importance of treating people as human beings. The plan must be understood, accepted and promoted by the first line of supervision. Poor morale created by improper usage will destroy any benefit to be derived from office work measurement, but its intelligent use will contribute to employees' sense of accomplishment on the job.

—WILLIAM D. LITTLE. *Office Executive*, Vol. 28, No. 1, p. 21:3.

Open-Shelf Vertical Files—Low-Cost Space Saver

WHEN necessary records grow alarmingly in volume and company investment in storage space and equipment increases, open-shelf vertical filing frequently offers considerable dollar savings—but in some cases it may have disadvantages as well. In considering the adoption of vertical files, the Guardian Life Insurance Company of America was apprehensive at first on two points: Would records be easily accessible, and would dust and dirt be a major handicap?

Thorough investigation convinced the company that filing and finding speed would not be compromised, and a special vacuum cleaning device to keep dust from accumulating on folders solved the maintenance problem. (With air-conditioning, the problem of dirt would have been negligible.)

The cost of the entire initial installation of the open-shelf vertical files was $9,000—a saving of about $16,000 over the cost of conventional files with the same lineal measure. The company estimates it has gained 42 per cent in filing space, and fewer file clerks are needed than before. With numerical indexing, every folder is easily visible in its place on the shelf, and the folders overlap the edge of each shelf by three inches, so that it is easy for file clerks to finger their way through the folders. Also the folders are exceptionally easy to replace.

Misfiling has been virtually eliminated, and the filing clerks prefer the compact arrangement and complain less of fatigue. Moreover, the new system has proved to be extremely flexible.

—AUGUST ZIEROLD in *Management Methods* 3/53

Five Common Errors in Handling Grievances

THE WISE HANDLING of complaints and grievances on all levels is a necessary and never-ending factor in a company's employee relations. Though the word "grievance" is usually associated with rank and file employees, the wise handling of grievances is actually a concern of every person who exercises authority over anyone else.

In dealing with other people's dissatisfactions, management is frequently guilty of carelessness and haste. Here are five common blunders:

1. Assuming that, because it is possible to knock down the alleged reason for a complaint or grievance, no legitimate complaint or grievance exists.

2. Stopping too soon in the search for factual information which is or may be pertinent to the complaint or grievance.

3. Expressing an opinion on the merits of a complaint or a grievance before the pertinent facts have been uncovered and weighed.

4. Hastily "settling" a complaint or grievance, only to discover that future events produce a new grievance out of the supposed settlement.

5. Failing to accumulate a record of the complaint or grievance from the time of its inception.

—*Personnel Newsnotes* (Owens-Illinois Glass Co.) 2/53

ACCORDING TO the U. S. Census of Manufactures, the number of salaried employees in manufacturing industries rose from 348,000 in 1899 to 2,349,999 in 1947—an increase of 575 per cent. In the same period, however, the number of production employees increased by only 173 per cent, from 4,340,000 to 11,839,000.

—*The Office Worker* (Office Employees International Union, AFL) 2/53

CONTROLLING EXCESSIVE MAIL COSTS

Too often management's approach to mail accounting, or the control of mail costs, is wholly negative. Since manufacturers' mail costs can be, or are, absorbed in production cost, they are included in the cost of the manufactured item and thus passed on to the consumer. Moreover, mail is considered a minor item of expense.

Actually, there has never been a time when the control of postage expense is more needed than it is today. In 1951, total postage paid for metered mail amounted to more than $740 million.

Metered mail provides many safeguards. It protects business mail, eliminates the use and purchase of stamps, indicates the number of pieces mailed, the amount of postage used, and the balance left on hand; indeed, it is practically a foolproof record of postage expense. Yet it fails to tell *where* the postage money has been spent.

To obtain the utmost value from your postage dollar, a daily accounting is necessary. A simple form of mail control would include:

1. Classification breakdown (registered, air, first, second, third, fourth class, and air parcel post).
2. First class (Sec. 34.9 P. L. & R.) business reply cards and envelopes returned by the post office.
3. Permit mail (Third Class, Sec. 34.66 P. L. & R.) for mail sent out by weight or bulk.
4. Metered mail.
5. Postage due.

As far as the last four items are concerned, companies doing a normal amount of business must keep accounts in one form or another, usually in separate books. Frequently, however, entries are either omitted because of work pressure or inaccurately recorded. By combining all these accounts it may be possible to eliminate as much as 80 per cent of the bookkeeping time.

Before postage expense can be reduced, a daily analysis must be made of the classification and departmental mail to obtain the accurate records that will be needed to establish the norm. The first year's records of daily mail cost, when completed, will constitute an accurate account of the rise and fall of postage expense. Analysis of the year's figures will indicate the exact classifications or departments which are extensive users of mail service and may serve as a basis for appropriate corrective action.

Maintaining proper mail accounts is not so time-consuming as it might appear. In actual practice, all the essential details should require no more than 10 minutes daily. Intelligently applied, mail accounting may make possible savings up to 10 per cent on mailing costs.

—Albert E. Clark. *The Office*, April, 1953, p. 62:1.

Instead of rewriting a subordinate's report and distributing copies around the office, some European office managers are required to write their criticisms and comments on the original paper, with each management level using pencils of a different color. When the boss gets the final paper he has a revealing cross-section of his subordinates' thinking and judgment.

—*Fortune* 2/53

Office Messengers on Wheels

A MILD SENSATION was created in the offices of a midwestern insurance company when a battery-operated conveyance was introduced to facilitate inside messenger service. Since the office layout necessitated long trips for the messengers, it had been difficult to find boys for this work during recent years. Now the messengers ride around noiselessly, at speeds up to 6 miles per hour, and service most of their stations without alighting.

After being equipped with a specially designed rack for messenger envelopes, the conveyance measures 55 inches long by 30 inches wide, over-all. It has only one front wheel and therefore can turn in its own radius. The steering mechanism of the cart also contains the accelerating and brake controls. Its batteries run for about 8 hours and are recharged each night.

Since the carts have been in use, travel time on the messenger route has been reduced—and, of course, objections to the physical requirements of the job have been eliminated.

—*L.O.M.A. Bulletin* (Life Office Management Association) 3/15/53

Handling Printing Jobs Within the Company

SAVINGS OF 35 per cent in the cost of printing office forms, letters, and promotion material have been achieved in one department of Willys-Overland Motors, Inc., through the organization of a reproduction department that prints 18,000,000 impressions each year on 14,000 jobs turned out on four multiliths, two mimeographs, two Ditto Machines, an Ozalid, a photo-copy and a complete plate and camera department.

The Reproduction Department handles letters, business forms, bulletins, financial statements, advertising copy, booklets, pamphlets, and catalogs. It operates as part of the purchasing department, with all work done through requisitions. Purchasing considers each requisition separately and determines whether the job should be done within the company, and, if so, what process should be used. Decisions are made on the basis of the type of job to be done, its purpose, quantity, facilities required to handle it, and, of course, the comparative cost of having it done by an outside service.

—*Purchasing* 3/53

The Grapevine

OF ALL THE forms of communication within an organization, the Grapevine is perhaps the most direct as well as the most merciless. It discounts what we say and reports what we do—or what rumor has it we are doing or going to do. Fine phrases are stripped of their felicity and carefully worded announcements are bereft of tact as the news speeds over the Grapevine. No other form of communication works as fast. Nor is it any respecter of confidence or secrecy. Frequently articles appear in company employee publications announcing plans which have supposedly been closely guarded secrets but are stale news to the organization by the time they appear.

Probably no one will ever succeed in fathoming the mystery of how the Grapevine gets some of its news. But there is no questioning the fact that it is the most sensitive of all channels of communication. Exasperating as it is at times, a good Grapevine is a valuable asset to any management—provided the management is completely sincere and honestly interested in its employees.

—*The Clarkson Letter*

Also Recommended • • •

FILES ANYONE CAN USE. By Beryl Batten. *Office Management and Equipment* (212 Fifth Avenue, New York, N. Y.), April, 1953. More filing problems arise from a lack of accurate cross-references than from any other cause, according to this article, which describes a simple system of cross-referencing and its application to correspondence, orders, and other basic types of files.

A ROUND-UP OF CURRENT PRACTICES IN ORDER-HANDLING ROUTINES. *Sales Management* (386 Fourth Avenue, New York 16, N. Y.), March 15, 1953. A step-by-step analysis of the order-handling procedures followed by eight representative companies of varying sizes, with high- and low-price products, is presented in this article which spotlights the trend to mechanization in speeding up processing and providing data. Solutions are offered to some of the major problems currently encountered, such as how to avoid snarls on 270,000 orders per year, how to serve national accounts, how to smooth paperwork when the majority of orders are received by telephone, and how to meet a sudden upsurge in sales.

DICTATING EQUIPMENT—STENOGRAPHIC POOL OR OTHERWISE. By J. U. Witt. *Systems and Procedures Quarterly* (Systems and Procedures Association of America, Box 96, Madison Square Garden Station, New York 19, N. Y.), February, 1953. $1.00. Reports on the successful experience of a medium-sized accounting office which installed a telephonic hook-up of several dictating stations to a single cylinder-type dictating machine instead of purchasing electronic equipment to replace the obsolete acoustical dictating machines previously in use.

OFFICE LIGHTING COSTS. By J. W. Bateman. *Business Management* (100 Simcoe Street, Toronto 1, Canada), April, 1953. 30 cents. Discussing the criteria of a good office lighting system and the types of equipment now available, the author points out that while the initial cost of a fluorescent installation is relatively high, total lighting cost per foot-candle is only about half that of a typical incandescent system. A comparative costs analysis for two hypothetical installations illustrates this point in detail.

MOVING THE OFFICE. By Sidney Shepherd. *The Office* (270 Madison Avenue, New York 16, N. Y.), April, 1953. This article offers a number of practical suggestions on moving an office operation to a new location smoothly and economically, and tells how to choose a reliable moving firm to do the job. Often, the author points out, moving offers a good opportunity for general housecleaning, disposing of old records and equipment, and installing new telephone equipment.

ARE YOU READY FOR AN AUDIT? By Herbert G. Bowles. *Office Executive* (132 West Chelton Street, Philadelphia 44, Penna.), April, 1953. The author offers a few humorous suggestions, and much practical advice, on how to prepare for the auditors' annual visit. Among other things, he recommends foresight in providing minutes of stockholders' and directors' meetings, together with related documents, as a means of saving the auditors' time and the company's money.

WHAT EVER HAPPENED TO THE MALE SECRETARY? By Alvin M. Hattal. *Office Management and Equipment* (212 Fifth Avenue, New York, N. Y.), February, 1953. While more than 90 per cent of all secretarial jobs are held by women, there is still a demand for male secretaries among executives whose secretaries are expected to assume many of the responsibilities of an administrative assistant. However, male secretaries are becoming increasingly scarce because young men are apprehensive—in many cases with good reason—about being caught in "blind alley" jobs, and because stenography and typing have come to be regarded as "women's work."

FIVE TO EIGHT cubic feet of records are kept by business for every person employed, according to the National Records Management Council. Records occupy $150 million dollars' worth of office space and between $150 and $250 million dollars' worth of storage space annually.

—*Sales Management* 3/1/53

Manufacturing Management

ARE INVENTORS OUT OF DATE?

Although the combined research and engineering facilities of industry, government, and educational institutions have been responsible for mass development of many important products and for the accumulation of basic knowledge that will provide the foundation for future engineering progress, they have by no means pre-empted the function of the inventor.

Engineering and invention are not the same. While the engineer's work is usually channeled by the exigencies of day-to-day plant operations, the inventor is a free agent who works uninhibitedly, often to the complete disregard of existing or envisioned industrial needs. In the past, this approach has been responsible for the development of the Diesel engine, monotype, case-hardened steel, photogravure, the motion-picture camera and projector, carborundum, the gyro compass, the electric auto starter, the safety razor, the airplane, the submarine, phenolic plastics, and many other principles and products. Yet in many respects the inventor's contribution has been glossed over, as is evidenced by the fact that the number of inventions has declined from 42 for every 100,000 Americans in 1885 to almost half that number today—and, even more graphically, by the manifest difficulty of marketing new ideas.

Invention remains an academic subject unless inventors are in the company reception room and programs for considering and utilizing their ideas have been worked out. However, industry's interests do not dictate its flinging open its doors to all who consider themselves inventors. So doing would entail a tremendous administrative expense and a significant waste of company time. Even more important, such a procedure would certainly lead to legal difficulties, lawsuits, and consequent bad publicity. For these reasons, the initial step in any program for considering outside ideas usually takes the form of a letter, mimeographed sheets, or a printed booklet containing statements of policy designed chiefly to prevent misunderstandings and create good will.

Most big companies refuse to consider the inventor's idea until he has taken steps to protect himself under the patent laws. The next step, of course, is the logical and necessary one of protecting the company. Here are some of the stipulations to which inventors are often required to agree before submitting their ideas:

1. No device, idea, plan, or suggestion may be received in confidence, and no confidential relation may be established with a submitter.
2. No obligation with respect to any device or design may be entered into that would imply any restriction on company activities not provided by the U. S. patent laws.
3. The company shall be under no obligation to reveal company activities relating to the subject matter of submitted ideas.
4. The company accepts and considers patentable inventions and unpat-

entable ideas submitted by the public only upon the understanding that it entails no obligation on the part of the company to adopt the suggestion or make compensation for its use.

5. The company makes no commitment that the idea or material submitted shall be kept secret.

The final element of company protection is a release form from the inventor, which, together with other preliminary documents, should serve as the basis for an active file on those inventors whose ideas have merit. Such a file should include correspondence, newspaper clippings about the inventor, copies of memoranda, records of interviews, and other pertinent material. Should the inventor bring legal action against the company, the file will prove invaluable.

Those who have had dealing with free-lance inventors know that, as a class, they are difficult people to do business with—stubborn, unpredictable, and often unreliable in keeping appointments and meeting deadlines. The company representative who negotiates with inventors should therefore be an executive who carries some weight within the organization.

Industry's stake in the invention profession dictates an open mind toward new ideas and a willingness to do business with their originators. Self-interest demands even more: the invention profession must be revitalized.

Industry should offer the inventor as much direct aid as possible, and cooperate with him in other ways as well. Permitting free use of company materials and products for experimental work; granting access to research department equipment; offering engineering advice and counsel; aiding in the development of working models—these are but a few of the low-cost ways in which industry can help restore the invention profession to the prominence it once enjoyed.

—BENJAMIN MELNITSKY. *Product Engineering*, Vol. 23, No. 12, p. 129:5.

Use of Standards in Industry—A Survey

WHAT ARE the opportunities for standardization in industry? Although the use of standards is gaining steadily, there is still much room for progress in this area, and leaders in the standards movement are working constantly to demonstrate its value in advancing production and sales and reducing costs.

In a recent survey made by *Purchasing* to measure industry's progress to date in the field and to evaluate the outlook for future advances, purchasing agents representing a wide variety of firms were asked: "Does your company follow the practice of standardization in respect to the purchase of (a) production materials and components? (b) plant and office equipment? (c) maintenance and operating supplies?" Here are the answers:

	Yes	*Partly*	*No*
(a) Production materials and components	61 per cent	38 per cent	1 per cent
(b) Plant and office equipment	52 per cent	47 per cent	1 per cent
(c) Maintenance and operating supplies	59 per cent	32 per cent	9 per cent

Sixty-nine per cent of the replying companies said they had programs for actively promoting standardization; in all but 6 per cent of the firms, the purchasing de-

partments participated to some degree in standardization activities. Eighty-three per cent of the respondent companies said they found established engineering and commercial standards available and adequate to meet their requirements.

Many of the purchasing agents replying in the survey said that vendors could be more effective in promoting the wider adoption of standards by suggesting standard or stock items to customers whenever these items might adequately replace specials, and by pointing out the production advantages and economies offered by standard items.

—*Purchasing* 3/53

WHAT PRICE INDUSTRIAL NOISE?

BACK IN THE 1930's, when industry was confronted with thousands of claims for workmen's compensation for silicosis contracted by employees, state legislatures eventually had to pass new laws dealing with the crisis. Affected companies, many of whom had faced bankruptcy, were given a new lease on life; they turned to cutting down hazards, building up insurance reserves, testing employees and working environments, and exclaiming, "Never again!"

The "never" was a little too optimistic; the "again" has come. In many states today, a new threat to the financial stability of great numbers of companies has become a disturbing reality. Claims for loss of hearing due, or allegedly due, to occupational hazards, may well make the silicosis claims pale into a minor risk. For every plant that has, or had, a dust hazard giving basis for a silicosis claim, there are thousands with enough noise—or enough partially deaf employees—to warrant equal claims for compensation.

One reason why compensation cases of this kind are such a formidable problem is that no one knows precisely what kinds of noise cause damage to hearing, and, indeed, how noise actually damages the human ear. Medical men are certain of only a few general things. They know that hearing can be damaged, permanently and irretrievably, by noise; but by exactly what kind of noise, and how much of it, is still a matter of debate. Long exposure to noises of high intensity, especially if they are also of high frequency, seems most likely to cause loss of hearing, but the exact measure is not certain. It is the difficulty of pinning down just what caused loss of hearing in a given individual, and the impossibility of knowing how much he will recover in time, that constitute the crux of the present crisis in workmen's compensation claims.

Reduction or prevention of harmful noise in the plant is a highly technical problem. A good precept is: Eliminate the source of the noise if possible. This is easier than dealing with the noise after it has been created. If there are several noises of about the same intensity impinging on the ear at the same time, eliminating one or a few of them reduces the total intensity relatively little. Since most such reductions are costly, it is important to get the right noises removed to keep costs down.

Some noises are carried through mechanical coupling from one part of a machine to another. Some are air borne. Some are magnified far beyond their

original intensity by radiation from large surfaces to which they have been conducted, or by the reverberations of a cover or similar part of a machine. Locating the source of the greatest noise, through a step-by-step analysis, will put an expert on the path to the often relatively few improvements that will bring the total noise down to tolerable levels. Acoustic materials on ceilings and walls, though they will not reduce the original noise at its source, do cut down reflected sound waves (by absorbing some of them) and thus reduce the total noise reaching a person at a distance from the source.

Another means of noise transmission, and sometimes the most costly to eliminate, is the transmission of low-pitched tones, especially through rigid floors and walls. In buildings already constructed, much good can be done by a variety of cushioning devices. However, there are many other ways of reducing the impact noise of metal-working machines. An example is designing the punch of a punch press so that all of the shearing action does not occur simultaneously.

The *Manual of Operation for an Industrial Hearing Conservation Program,* issued by the Committee on Conservation of Hearing of the American Academy of Ophthalmology and Otolaryngology, is a good starting point for the firm that has not yet done anything about the noise problem. Designed to help protect employees' hearing and control the effects of noise, the procedures outlined will also give the personnel department data if the company is involved in a claim. The manual may be obtained from the Committee at Suite 308, 1136 West Sixth Street, Los Angeles 17, Calif.

In most respects, all but a limited number of deafness cases are like occupational diseases. Management would like them compensated, as industrial diseases are, to the extent they are justly compensable; that is, when loss of earnings as a result of the disease has been proved—and only after absence from the source of noise has continued long enough to make certain that temporary fatigue-loss has been restored. Also, management would like some scientific basis, if any can be found, for establishing what proportion of lost hearing is due to other causes than industrial noise—such as aging, inheritance, or non-industrial infection.

Unions, on the other hand, believe deafness should be treated like a conclusive, one-time accident rather than a disease, the effects of which can be determined only after a period of time has elapsed. They point to the fact that schedules have already been established in many states for loss of hearing.

Which view will prevail, or what compromise will be reached, depends to a large extent upon how thoroughly decision-making management verses itself in this problem now.

—*Modern Industry,* February 15, 1953, p. 48:5.

DO YOUR WORKERS have enough to do? The obvious answer is, "Of course they have." Yet a study by the University of Illinois indicates that one of the reasons for high turnover is often that employees don't have enough work to keep them busy. Out of 2,700 persons who quit their jobs, 9 per cent gave lack of work as a reason for quitting.

—*News Letter* (The Dartnell Corporation, Chicago, Ill.) 9/20/52

WHY ACCIDENTS HAPPEN

Considerable interest has centered in recent years on the relationship between supervision, employee attitudes and accident frequency. A study conducted at University of Chicago indicates that the way a supervisor treats his men probably affects their accident frequency. This study revealed that two very autocratic supervisors had ratios of 22 and 26 "lost time" accidents per year respectively over a five-year period, as compared to a plant average of only six. When the two autocratic supervisors were transferred to new departments, the accident frequency began to increase in those departments.

The effects of reprimands and praise on the amount of work turned out by groups of individuals were demonstrated in another experiment, which showed that the best results are achieved through private reprimand or public commendation of people. The worst results were obtained by the use of sarcasm, either privately or in public. Training in leadership qualities and methods of supervision, it is evident, might be very helpful in making the safety program work.

Current studies are showing that the maladjusted or emotionally unstable person is likely to cause accidents. The basic question involved in the problem of accident proneness seems to be: How do the high and low accident groups differ in their personality characteristics?

One of the most interesting studies of the personalities of accident-prone individuals was carried out with fracture patients in a hospital. The typical characteristics evident in the largest group of these individuals were aggressiveness, impulsiveness, and intolerance of social or family limitations on their behavior.

One authority on industrial medicine believes that accidents are due to three basic causes. The first of these is *insufficient skill* or *lack of knowledge*, particularly among new employees whose instructions concerning the new job are incomplete or inadequate.

Second, in his opinion, is *physical or mental defect*. By and large, however, individuals with physical defects have a rather good safety record, and data are not available on relationships between mental inadequacy and accidents.

The third cause listed by this expert is "*improper attitude*," a term which embraces a wide range of psychological and temperamental characteristics. Such characteristics are displayed by each of the following types:

(1) The unhappy worker; (2) the worried individual; (3) the careless worker; (4) the inattentive worker; (5) the disgruntled and rebellious individual; (6) the drunken or irresponsible individual; (7) the rugged individualist, usually an old-timer, who has operated a high-speed grinder for 40 years without goggles and who isn't going to wear any "new-fangled" goggles because of the "crazy ideas of some safety engineer"; (8) the practical joker who doesn't know where fun stops and danger begins; and (9) the worker who is dissatisfied with his pay, working conditions, his supervisors, and life in general. All of these individuals are more likely to have accidents than those who are contented in their jobs and have a high level of morale.

Even if extreme care is taken in the selection of emotionally stable employees, we can never be sure when problems in their personal lives will cause unrest and emotional disturbance. Moreover, few

business and industrial groups have provided adequate counseling services for their employees. It is relatively easy to bring to management's attention the need for keeping machinery in good repair, but management is not quite as willing to recognize some of the human needs of employees.

Considerable progress can probably be made toward better safety programs if safety engineers are given more training in human behavior. Some technological schools have already taken steps in this direction. Since engineers run much of industry, adding to their training in human behavior would be valuable in furthering the whole realm of personal safety.

Hours of work appear to have a definite relationship to safety. Accident frequency varies considerably during the working day: during the morning as well as the afternoon, the accident frequency in many industries begins at a low level, rises sharply, and then falls off during the last hour of the work period.

Environmental conditions may also be important. In one factory a relationship was observed between temperature and accidents. Here the accident rate was lowest between 55 and 59 degrees Fahrenheit and highest over 69 degrees. Between 59 and 69 degrees the accident rate was moderate.

Some researchers have made studies of hourly accident rates to determine the role of fatigue in industrial accidents. One investigator found that variations which occur from hour to hour are closely related to the rate of work. The peak accident rate occurred in the next to the last hour of the morning, which was also the period of highest hourly production. When the working day was exceedingly long—12 hours—the accident rate for women was much higher on an hourly basis than it was for a 10-hour day, and their afternoon accident rate was 45 per cent higher than the morning rate. The accident rate for men, however, seemed little affected by the longer working day, and there was no increase in the ratio of morning mishaps to afternoon mishaps.

Statistics seem to indicate that a certain number of accidents are due to such factors as light and speed of work. Age and experience of workers likewise have some significance. One study of the accident frequency records in mines indicated that the oldest and the youngest miners have the greatest accident rate.

It has also been demonstrated that there is a genuine positive relationship between accident frequency and visits to the dispensary. The interpretation offered by the investigator in this study was that dispensary visits are marks of instability of personality and of a desire to avoid work, and that this instability is important in susceptibility to accidents.

—W. A. Eggert. *Effective Safety Programs* (College of Commerce, State University of Iowa, 1953), p. 3:18.

POSTERS continually remind production workers at the Chevrolet plant in Tarrytown, N. Y., of the importance of quality. Quality control blackboards, too, are located all along the line, flagging foremen on the number and type of rejects in their departments. One out of every 11 workers in the plant is an inspector.

—*The Foreman's Letter* (National Foremen's Institute, Inc.) 3/2/53

Also Recommended • • •

ADJUSTABLE ASSEMBLY LINE. By Charles Ayres. *Pacific Factory* (709 Mission Street, San Francisco 3, Calif.), January, 1953. Describes the development of a flexible assembly line which increases the utilization of existing floor space without requiring additional plant construction. The adjustable layout, designed by Ampex Electric Corporation in the manufacture of magnetic tape recorders, consists of three individual, parallel assembly lines with short end tables which can be arranged to form an S-shaped pattern, providing a total of 27 work stations for a continuous assembly operation with maximum flexibility for either low- or high-volume runs.

HANDLING PROBLEMS SOLVED BY RADIO AND TELEVISION. *Plant Administration* (MacLean-Hunter Publishing Company Ltd., 481 University Avenue, Toronto 2, Canada), March, 1953. Examples of industrial uses of two-way radio equipment between dispatcher and vehicle operator to improve materials handling are given in this article. Timken Roller Bearing Company, for example, increased efficiency 45.4 per cent and saved $1,200 a month by installing a communication system at a point where bales were handled. Other companies have used television with radio to bring visual control at junction points in conveyor systems, to direct trucks, and, in one case, to help the operator of an overhead crane, the article reports.

DAMAGES VS. PENALTIES IN PURCHASE AGREEMENTS. By Albert Woodruff Gray. *Purchasing* (205 East 42 Street, New York 17, N. Y.), March, 1953. The law makes a clear distinction between damages incurred through breach of a contract and penalties that may be stipulated for failure to perform contract obligations. The first are valid; the second are unenforceable and void. This article discusses some decisions and precedents illustrating how the law of damages in interpreted.

DOES IT PAY TO AIR CONDITION YOUR PLANT? By H. P. Bailey. *American Machinist* (330 West 42 Street, New York 36, N. Y.), February 2, 1953. The role of air conditioning in an efficient plant program is considered in this article, which lists among the major advantages: cleanliness of the manufacturing area; elimination of damage from moisture and rust; and higher efficiency of employees in hot weather. The installation of air conditioning also contributes to greater precision in manufacture—parts can be machined to close tolerances consistently and tool re-setting is greatly reduced. In a 40,000 sq. ft. metal-working plant housing 125 employees, air conditioning was found to cost only 3¼ cents per hour per man—less than 1 per cent of the cost of labor and overhead in the factory.

SONIC ENERGY—NEW PRODUCTION AND INSPECTION TOOL. By Carroll W. Boyce. *Factory Management and Maintenance* (330 West 42 Street, New York 36, N. Y.), March, 1953. Sonic energy, almost unknown as a work tool before World War II, is moving rapidly from the laboratories to the inspection benches and the production floor. Yet no practical applications have as yet been found for many laboratory-proved techniques in the use of this new tool. Some ways in which sonic energy may be commercially exploited are examined here, including its application in dimensioning, inspection and flaw detection, measuring "physical constants," cleaning, "drilling" (abrasive cutting), agglomerating and precipitating, mixing and homogenizing, and reducing friction.

WHAT'S AHEAD IN THE NEXT 10 YEARS IN METALWORKING. *American Machinist* (330 West 42nd Street, New York 36, N. Y.), 75th Anniversary Issue, Vol. 96, No. 24. From virtually nothing 75 years ago, metalworking has grown until it has capital equipment of more than two million machine tools and presses and employs approximately six million persons. It is due for equally spectacular advances in the coming decade, according to this anniversary volume. Contents of the issue include graphs of the probable production rise of machinery, electrical and transportation equipment, and other metalworking products; detailed analysis of 13 major metalworking industries; and forecasts of trends in the 11 major phases of metalworking.

MAINTENANCE IN METAL-WORKING PLANTS. By Herman Z. Zannoth. *Plant Administration* (Maclean-Hunter Publishing Company Ltd., 481 University Avenue, Toronto, Canada), January, 1953. Preventive maintenance cut breakdowns in Cadillac Motor Car Division's production department from an average of 28 minutes a month in 1950 to six minutes a month in 1952, and reduced downtime from 67 minutes to 3½ minutes a month during a 10-month period. In this article, Cadillac's plant engineer describes the operation of the company's new program for combining preventive maintenance with work standards.

PRODUCT LINE CONTROL: PLANNING FOR PROFITS

WHILE PRODUCT PLANNING has always been carried on in industry to some extent, the function has generally been spread throughout sales and research management. Today, however, to insure that product decisions are made only after careful consideration of all the business factors involved, progressive companies are beginning to center responsibility for the over-all analysis of product problems in specific individuals. In larger companies the product planner is generally on the central marketing staff, reporting directly to the chief sales or marketing executive; in smaller firms the line sales manager may himself handle product planning. In either case, the basic objective is to provide continual analysis and advance planning of the product line.

Among the important elements of product planning are these:

1. *Establishment of profit standards as a guide to product decisions.* In many companies, insufficient emphasis is placed on profit standards as a means of guiding product decisions. Most businesses appraise profitability simply on the basis of margins on sales—which is often a deceptive measure. The most appropriate gauge of profitability is the percentage net return on investment, which represents the ratio of net profit to total investment—the value of the land, buildings, and equipment (preferably at first cost) and the inventories, receivables, and cash required to produce a given product. The return on investment is a measure of the efficiency of use of facilities.

2. *Establishment and maintenance of a sound product policy.* A product policy is designed to answer the question: "What general type of product can this company make and sell most efficiently?" Since it should capitalize on the special strengths and resources of the company and avoid its weaknesses, the product policy should be developed on an individual basis in every company.

While the number of different, but equally successful, strategies is fairly large, any sound product policy must consider the following: (1) desirable level of investment; (2) desirable level of sales; (3) area in which the company is technically most competent; (4) types of product the company is best equipped to manufacture; (5) types of product the company is best equipped to distribute; (6) desirability of patent protection; (7) preferred types and sources of raw materials; and (8) desirability of mass production or small-volume specialty production.

A sound policy, well expressed and well taught to all members of management, makes for a more decisive, more alert, and faster-acting organization. Besides providing a set of objective criteria to assess the relative desirability of alternative products or research projects, it is often useful in the analysis of products with an unsatisfactory record of sales and profit.

3. *Analysis of existing products to determine which should be dropped and which expanded.* An important phase of

any product planning program is a thorough analysis of all suspect items in the product line. One company eliminated in three years 16 different products, with total sales representing nearly 10 per cent of its total volume—yet over this same period its total sales, as well as its net profits, increased significantly.

4. *Simplification of product line by reductions in the number of grades, sizes, models, colors, or other varieties.* The number of individual items handled by some companies is far too large. One manufacturer of semi-finished industrial materials recently found to his horror that it was possible to order from his catalog some 43,000 different standard varieties of his products. A concerted drive to concentrate effort on fewer items led to percentage reductions ranging up to 96 per cent in the number of varieties he was offering of various types of product.

5. *Control of the volume of small orders by establishing suitable pricing and packaging practices.* On a typical small order the clerical, accounting, and handling charges often run higher than the gross margin realized, except in firms where all distribution and clerical procedures are specifically organized to handle such items. The institution of standard packages with contents of minimum value, minimum order limits, and, in custom-made lines, service charges on orders below a certain value, are useful in controlling the size and volume of orders.

6. *Establishment of methods to improve the development and introduction of new products.* Insuring a continuing flow of new products is partly a matter of training and partly a matter of formal control procedures.

As to training, the product planner should make sure that all sales and development personnel understand the company's product policy, its profit standards, and its strategic aims as a business. Where research scientists and development engineers are encouraged to think of their work in terms of general business requirements and over-all company policy, there will often be a surprising increase in enthusiasm and morale and an amazing outpouring of new ideas and new product developments.

As to procedure, a product planning program must provide a workable system for the control and coordination of development activity. This means listing and defining the various phases of a complete development program and assigning specific responsibility for each phase to a particular individual in the company.

7. *Analysis of new areas of product development.* In considering major new development projects, it is generally necessary to make not only a technical analysis but also a commercial analysis of the proposed new product as a business in itself. To this end, the product planners must work closely with the market research department, the product development laboratory, and the process development group.

The overall results of a product planning program are higher profits. Companies with such programs believe that they make an immediate contribution to profits in clearing away marginal products, small orders, and excessive product varieties. The major value of product planning, however, is that it makes possible the more rapid and successful introduction of new products and the creation of a more profitable product structure for the future.

—Charles H. Kline. *Advanced Management*, March, 1953, p. 10:5.

Suburban Living—New Influence on Distribution

MR. DOOLEY'S CONTENTION that "ivrything that's worth havin' goes to th' city; th' counthry takes what's left" has little truth in it today. Nothing has had a more profound effect on the business of distributors all over the U. S. than the flow of population into suburban areas—and this trend seems likely to continue in the current decade as a strong influence upon the common interests of wholesalers and retailers.

In the ten years ended with 1950, a study by the Institute of Life Insurance shows, Chicago's population went up 6.6 per cent while its suburbs gained more than 31 per cent. Los Angeles grew 31 per cent, but its suburbs expanded nearly 70 per cent. While Galveston, Texas, was adding 9.4 per cent to its population, its suburbs added almost 129 per cent. Seattle, gaining 27 per cent, was still unable to keep pace with a suburban growth of 94 per cent.

The remarkable growth of communities lying just beyond the cities continued even while one-fourth of all U. S. cities of 50,000 and more were losing population. The effects of this shift on living habits have been felt by retail distribution and its suppliers in a number of ways:

An increase in family size, resulting in part from more living space, has encouraged more home life. Despite the rise in car ownership, families have given increasing attention to activities linked to the home. Moreover, the improvement that has taken place in housing designs has affected interior decoration, landscaping, and domestic recreations of many kinds. Home ownership has continued to increase with the growth of families and the rising interest in suburban living and community affairs.

The role of distribution and the service trades in general has become increasingly important in this surburban trend. Branch department stores and supermarkets have been but the more spectacular signs of the change; warehouses, garages, small shops and shopping centers have multiplied as well.

—*The Biddle Survey* 3/31/53

Boom in Installment Buying

INSTALLMENT CREDIT for durable goods climbed from $20 billion in 1951 to $25.1 billion last year, according to a recent Conference Board study. Total installment sale and loan credit in December, 1952, was 30 per cent greater than in December, 1951.

The proportion of credit to cash sales has dropped off since last summer but still remains substantially above the pre-May, 1952, level. Trends of credit sales in the months ahead will indicate what part of the increase in installment volume pointed to a lasting rise in the rate of borrowing.

Statistically, the Board's report fits into the trend toward credit purchases which has been evident in most years since 1946. Credit sales are nearing pre-war relationships to total sales for most consumer durable goods. The percentage of consumer income being set aside for debt repayment is higher than prewar figures: 9.3 per cent in 1952, as compared with 9.1 per cent in 1941.

Among major reasons for the return to credit buying has been the gradual depletion (in purchasing power) of liquid assets built up during World War II by families who normally buy on credit.

Coupled with the growing importance of credit sales is the gradual lengthening of collection periods. Department store installment contracts signed in 1946 averaged nine months; in 1951, they ran for an average of 13 months.

—*Steel* 3/16/53

NEW CONCEPTS IN DEALER AIDS

With self-selection, self-service, and a host of related selling techniques sweeping the retail distribution field, many of the traditional dealer aids offered by manufacturers have inevitably become outmoded. Yet many manufacturers are scarcely aware that a revolution in retail techniques necessitates a revolution in programs of dealer service.

What, specifically, can the manufacturer do to bring his program of dealer aids in line with new conditions? A look at some of the special problems that confront the retailer today will suggest a number of answers:

In a number of non-food and even in some food categories, the merchant finds it necessary to do his own pre-packing—and he doesn't like it. Packaging, bagging, wraps, etc., that provide the retailer with a self-selling unit therefore represent a new form of dealer assistance that is needed in many lines of merchandise. Some manufacturers are fighting it because of cost—but it may ultimately be found that the cost of the pre-packing is less than the total costs involved in dealer resistance to lines that are not pre-packed.

Many retailers, after switching to self-service or self-selection, continue for a time to use signs and cards exactly as they did when they depended on floor salesmen—for mere identification of departments, sections, or merchandise classifications. But these merchants soon find that the sign or card must include not only selling or promotional themes but also persuasive merchandise details. Often, however, this calls for detailed knowledge of the merchandise and an ability to create copy which the retailer lacks. Under these circumstances, he naturally tends to turn to his supplier. Here is a broad opportunity for many manufacturers to render needed assistance.

A major problem of self-service and self-selection retailing is that of getting stocks out on the floor in advance of the peak selling period. It is practically impossible, without running over customers, to replenish stocks during the peak retail hours—in most of the larger stores, at least 70 per cent of the week's total volume is done in less than 30 per cent of the shopping hours. In any event, stock control often becomes quite a different affair under the new retailing conditions. As yet, few manufacturers have aided retailers with these problems.

Usually, under self-selection, fringe selling items are not stocked; the inventory is confined primarily to best-sellers, displayed in great depth. Consequently, retailers need more than ever to know which products in the manufacturer's line offer the greatest volume potential, the greatest profit potential, etc. Retailers guess at such things—they really have few figures on brand or item turnover. Some manufacturers are beginning to supply such figures and are suggesting balanced assortments of best-selling items. Here, clearly, is another area for dealer assistance.

Today's retailer must often have from 15 to 40 per cent more merchandise out on the floor, sometimes even more. This usually calls for new concepts in fixturing. Retailers have turned from single-tier fixtures to double-tier and triple-tier fixtures, and proper counter length has become a topic of lively debate. Policies now being evolved will affect the design

of manufacturers' merchandising fixtures, counter posters, and even package design.

There is a decided tendency in some merchandise categories—housewares, for example—to display merchandise by type and size, rather than by brand. This disturbs brand manufacturers, who quite naturally prefer having their line grouped in a single section. It will require considerable persuasion, and new types of display aids, to convince some retailers to display merchandise by brand.

—*Grey Matter* (Grey Advertising Agency, Inc.), April 15, 1953.

Brand Loyalty—Fact or Fiction?

DO CUSTOMERS purchase a favorite brand time after time, or do they shop around at random? Do the type of merchandise involved and the relative strength of brands have an important influence? How many customers stay with a single brand of a frequently purchased item for a considerable period of time?

Some basic research into the problem of brand loyalty was conducted recently at the University of Chicago. The study, sponsored by *Advertising Age,* was based on facts obtained from a consumer purchase panel operated by the *Chicago Tribune* and covering a wide variety of grocery and drug items. The panel data, which represent a complete record of the purchases of 610 typical consumer families, showed not only which items and brands are purchased by the families in the panel but the sequence of purchase.

Here are the major conclusions of the study:

1. On the basis of the nine products studied, the majority of consumers seem inclined to purchase a favorite brand or set of brands. Only a minority divided their purchases over five brands or more, or otherwise showed evidence of buying brands at random.

2. Between one-fourth and one-half of the buyers of frequently purchased items stayed with a single brand during the 12-month period under study. It is possible, of course, that some of the families classified as having divided loyalty were actually loyal to a single brand in terms of the individuals in the family.

3. The type of merchandise appears to have little influence on brand loyalty, but there is a definite relationship between strength of brands and nature of the loyalty shown. Most food products have a lower loyalty than the non-food items. There does, however, seem to be a tendency for the less frequently purchased non-food items to show a somewhat higher degree of loyalty. The most useful generalization seems to be that loyalty is high in well established products where little or no change in product has occurred in recent years, while loyalty is low where product entries are frequent.

4. A brand can develop enough consumer loyalty so that it can get a sizable share of market from a relatively small group of steady purchasers. However, the most successful brands combine a moderate degree of loyalty with wide market coverage.

—GEORGE H. BROWN in *Advertising Age* 1/25/53

THE NUMBER OF FAMILIES in the United States increased by over 8 million between 1940 and 1952, according to data released by the Bureau of the Census, U. S. Department of Commerce. The great majority of families, 85 per cent or more, include both husband and wife.

—*Facts on Women Workers* (U. S. Department of Labor) 1/31/53

MARKET RESEARCH: DR. FREUD LENDS A HAND

THE CLEVER psychologists who mastermind the efforts to sell such things as toothpaste, cigarettes, deodorants, and beer are beginning to resort to methods formerly tried only on disturbed mental patients. Szondi tests, doll playing, Rorschach ink blots, thematic apperception, Rozenzweig picture frustration, and other esoteric testing schemes borrowed from mental institutions are being used increasingly to ferret out the hidden prejudices and yearnings of consumers that wouldn't show up in an ordinary question-and-answer marketing poll. Called, in psychologists' jargon, "projective techniques," these tests are especially valuable in market research on products used for personal hygiene or involving the customer's social position and prestige.

The field is so new there aren't even any textbooks on the subject. But James M. Vicary, a New York research consultant, estimates that already about two dozen marketing organizations have begun to use projectives.

So far, word association has been the most common psychiatric device used by market researchers to probe the public mind. By asking human "guinea pigs" to respond to words in a selected list with the first word that comes to their minds, a surprising amount can be learned about the hidden emotional tags that words carry. Specially coined words like "irium," "seismotite," "activated," "sanforized," "cravenette," and "solium" all have been through the word association mill before they were sprung on the unsuspecting public.

Frequently, people will conceal their real reason for liking or disliking a product, say the psychologists. Harold J. Leavitt, a New York management consultant, describes a study he made of women's attitudes toward sterling silver tableware:

"Our conventional interview material pointed up feelings about the durability of silver, about craftsmanship, and about tendencies to scratch easily. But when we attacked the problem with projectives, we picked up a different kind of information altogether. This time it was snob appeal that was important about sterling. Women wanted it for its prestige and show-off value."

All sorts of refinements of projective techniques are coming into use, from finger painting to play-acting. In one test a group of women were shown two shopping lists and asked to describe the kind of housewife who had made up each. Instant coffee was on one of the lists, a regular drip grind on the other.

The housewife who used regular coffee was pictured in conventional terms, but the poor girl who bought the easy-to-make kind was called lazy and a poor planner by 48 per cent of the women; 16 per cent said she wasn't a good wife, and 4 per cent thought she was a spendthrift.

To check publicity releases, one researcher has used the "chain interview." A news story is read to an individual, who then repeats it in his own words into a tape recorder. The tape recording is then played to another person, and so on through a chain of six or eight. This method is said to produce very convincing findings on the way any particular company message will be received by a particular audience.

—JOHN S. COOPER. *The Wall Street Journal.*

Discovering Salesmen's Weaknesses

SOONER OR LATER, the sales manager who's faced with the job of developing a new sales training program or improving an old one must organize a curriculum. He must decide what training areas to cover, how to subdivide broad subject matter into sharp-angled segments. He must also have some idea of what salesmen need and want.

Confronted with this problem, one General Electric Co. sales training supervisor decided he wasn't going to serve up warmed-over hash. Instead, he ascertained his division's internal needs for information, training, and exchange of ideas by (1) asking salesmen themselves and (2) asking distributors where the salesmen were weak. Then he built up his curriculum from the answers he got.

First, salesmen were asked (by questionnaire) what problems they found most difficult to solve. Then distributors were asked what service and assistance they felt the salesmen should furnish, and what aspects of the salesmen's training had been neglected or had caused hardship or misunderstanding. "Base your answers on all salesmen," they were told, "not just G-E salesmen." Replies from both salesmen and distributors showed a definite pattern of preferences.

Salesmen felt they needed help in (1) analyzing local market data; (2) teaching wholesalers to sell dealers and retailers to sell users; (3) driving home advertising and sales promotion; (4) increasing the return on their investment through knowledge of modern business methods; (5) gaining more product knowledge; and (6) gaining better knowledge by competitive products, in that order.

Distributors on the other hand, wanted (1) product knowledge; (2) full information on company programs and policies; (3) knowledge of the product's application; (4) more time with company salesmen; (5) knowledge of competitive products; and (6) answers to objections raised by prospective users and dealers.

—PHILIP PATTERSON in *Sales Management* 2/15/53

Taking the Sting out of Price Raises

THIS YEAR many companies will have to raise prices on some products in order to offset price cuts on more competitive items. With distributors and customers generally resistant to any increase in costs, there will be a definite premium on making even minor upward adjustments as palatable as possible. The following techniques, currently being used by leading companies, have proved especially successful:

1. Accumulate small price changes until you can announce a basic change in price policy. Wholesalers and dealers dislike frequent price changes, which confuse their own merchandising plans and create ill-will among their customers.

2. Customers are often agreeable to price increases if the package, design, or appearance of the product is also improved.

3. Sometimes it is wiser to simplify the product than to raise the price. Manufacturers of industrial equipment often have a chance to eliminate extras which don't affect the product's utility or serviceability; consumer goods manufacturers may be able to redesign the product and put it in a new, attractive package to get consumers to accept less for their money.

4. A price hike can frequently be made more acceptable by liberalizing trade terms at the same time.

—*Distribution Report* (Research Institute of America, Inc., 292 Madison Ave., New York 17, N. Y.) 3/17/53

Also Recommended • • •

ARE YOU SURE YOU CAN IDENTIFY YOUR REAL BUYERS AND PROSPECTS? By Webster Kuswa. *Sales Management* (386 Fourth Avenue, New York 16, N. Y.), March 1, 1953. The industrial buyer who talks to the salesman or signs the order is not always the man who originated the idea or specified the product, the author points out. He suggests that analysis of title information appearing on inquiry coupons or business reply cards may reveal that an important part of the market has been neglected—as in the case of a maker of special machine tools whose advertising was aimed exclusively at production men until he discovered that engineering departments accounted for four times as many of his inquiries.

WAREHOUSING AND ITS PART IN DISTRIBUTION COSTS. By J. Leo Cooke. *Proceedings of the Twenty-fourth Annual Boston Conference on Distribution* (Boston Chamber of Commerce, 80 Federal Street, Boston 10, Mass.), $3.90. 104 pages. Public warehousing is appraised here as an essential and highly specialized service which can aid in reducing physical distribution and transportation costs because warehouse personnel are highly trained, flexible storage space may be expanded or contracted to meet demand, the client pays only for the space and services he uses, and handling costs can be assessed in advance.

G-E BLUEPRINTS JOB PATTERN FOR AIR CONDITIONING SALESMEN. *Sales Management* (386 Fourth Avenue, New York 16, N. Y.), March 1, 1953. Based on an interview with the General Electric Company's supervisor of sales training, this article describes 10 simple ways to tell the salesman more about his job, lift his efficiency, and stimulate his morale. After teaching him about the company's products, policies, and programs, management should help him meet customers' resistance by giving him information on competitors, the article suggests. Then it should help him widen his territory and sales by training distributors, building sound public relations, and developing liaison with other departments.

WHAT MAKES A SALESMAN MAKE A SALE? By James S. Nirenberg. *Printers' Ink* (205 East 42nd Street, New York 17, N. Y.), January 9, 1953. Emotional reactions and unconscious patterns of behavior toward others, established in early childhood, affect the way a salesman deals with a prospect and determine his success or failure, says the psychologist for Trade-Ways, Inc. The dependent, unaggressive salesman is likely to fail, for example, because he merely appeals for charity; while the hostile, over-aggressive salesman antagonizes his potential customers with emotional outbursts or high-pressure tactics. Only the salesman who genuinely likes people, or has learned to cope with them by trying to control them, can successfully control his feelings and present constructive, sales-clinching arguments, Dr. Nirenberg finds.

IT PAYS TO BE A SHOW-OFF. By O. Mary Hill. *Canadian Business* (524 Board of Trade Building, Montreal, Canada), March, 1953. Exhibiting at a trade fair, this article points out, may accomplish little or nothing for the company that has failed to plan its exhibit wisely, publicize it in advance, and provide alert and well-informed booth attendants to answer the queries of potential customers. The author offers a list of specific planning points for the exhibitor and illustrates them with examples of actual company experience. The importance of movement in the exhibit and of product demonstration receives special attention.

KEY QUESTIONS TO ASK SALESMEN WHEN YOU REVAMP TERRITORIES. By B. M. Austin. *Sales Management* (386 Fourth Avenue, New York 16, N. Y.), March 15, 1953. The practical realignment of a sales program is discussed here in terms of five basic steps: 1) determining territory potentials and assigning sales time; 2) determining new routing; 3) selecting the proper accounts on which to expend sales time; 4) allocating spare sales time for development-selling and distributor support calls; and 5) planning sales strategy for winning over large buyers.

SINCERITY is an excellent instrument for the speedy dispatch of business. It creates confidence in those we have to deal with, saves the labor of many inquiries and brings things to an issue in a few words.

—LORD CHESTERFIELD

Financial Management

REDUCING TAXES ON "EXTRA COMPENSATION" PLANS

HIGH INCOME TAX rates have made it necessary to consider taxes in connection with every business transaction, including various forms of employee and executive compensation and benefits. In fact, a company must constantly re-examine its entire compensation program in the light of its tax implications.

Let us first consider compensation in the form of pensions, profit-sharing arrangements, and stock-bonus trusts. Here few companies have utilized all the potentialities for tax benefits provided by our tax laws.

For example, many companies are not claiming the maximum tax advantage in their high-profit, high-tax years. This comes about because the plans have used a rigid method of funding and hence lack flexibility. Thus many companies are unable to claim the maximum permitted tax deduction in their peak years, with the freedom to reduce or suspend contributions entirely in bad years without necessarily disturbing the actuarial or tax soundness of the plan.

Some companies, moreover, are failing to avail themselves of the opportunity for deferring, with capital gains possibilities, excess contributions from bonus and incentive plans. It is possible to coordinate cash bonus and incentive plans with trusts in such a way as to store up for future distribution amounts which are not needed for current expenses. These surplus amounts can accumulate income-tax free, and when paid out can be entitled to the capital gains tax treatment with a maximum tax bracket of 26 per cent under the current Internal Revenue Code.

Employees and executives are frequently being deprived of the opportunity for capital gains or, in some cases, freedom from having to pay any income tax on the pay-outs.

Under certain circumstances it is permitted, under the tax law, to make payouts of employee trusts on a basis which will allow the employee and executive to utilize the capital gains tax rates. Further, where company stock is involved, it is possible that there may be no income tax at all on the unrealized appreciation. That is, the employee would owe no tax on the appreciation in value of his company stock until he sells the stock, and, if he holds the stock until he dies, his estate would be put on a stepped-up basis and could sell without having paid income tax or capital gains tax on the appreciation in value during his lifetime.

Various forms of group coverages, including group life, hospitalization, surgical, daily medical expense and medical catastrophe, offer another opportunity for the rare combination, under the tax law, of a current tax deduction by the employer without a corresponding immediate income tax to employees.

A third major opportunity for tax savings, particularly for closely-held corporations, may be found in the redemption of corporate stock upon the death of an employee or executive, with the possibility of avoiding income tax on the appreciation.

An executive could acquire corporate

stock and then, through a buy-and-sell agreement, arrange for the corporation to redeem his stock when he dies. The tax law would permit the executive's estate to sell to the corporation free from tax on the appreciation under the following circumstances: If the value of his stock in the corporation, which is included in the deceased executive's estate, amounts to more than 35 per cent of the value of his gross estate, so much of such stock may be redeemed by the corporation after the owner's death as is necessary to pay the federal death taxes due by the estate. In such a case, none of the proceeds will be taxed as a dividend; and if the redemption is made at the same price as the stock is valued for federal estate tax purposes, no capital gain will be involved. This provision is of special value to many owners of close corporation stock who wish most of their holdings to be kept intact after their death.

Still another frequently overlooked provision of the tax law permits the corporation to give up to $5,000 of death benefits free of income tax to the deceased executive's family, provided the death benefit is part of an employment contract between the company and the executive.

In closing, it should be emphasized that the responsibility of good citizenship requires the payment of all taxes due. But it also assumes the taxpayer's full knowledge and use of the opportunities for savings that Congress has put into the tax law.

—From an address by MEYER M. GOLDSTEIN before the New Jersey Chapter of the Chartered Life Underwriters.

Dividend Payments: The Record Since '29

AS A PERCENTAGE SHARE of personal income, cash dividends have undergone a long-run decline since 1929. The dividend component amounted to about 7 per cent of personal income in 1929 and 1930 and dropped to an average of about 5 per cent during the 1932-1941 period (excluding 1936 and 1937, when the undistributed profits tax was in effect). It fell still further as a result of the imposition of heavier corporate income tax rates at the beginning of the war and the withholding of a greater proportion of earnings by corporations to finance large-scale postwar capital expansion programs.

Dividend payments to persons made up about 3½ per cent of total personal income in both 1951 and 1952. This relationship compares favorably with that for any war or postwar year except 1950, when a spurt in corporate distributions temporarily raised the proportion to 4 per cent.

—*Survey of Current Business* (U. S. Department of Commerce) 4/53

SINCE 1942 the Bureau of Internal Revenue has issued 17,018 rulings regarding the qualifications for pension, profit-sharing, and stock bonus plans. Although it is impossible to estimate accurately the total number of qualified active plans, the Bureau has issued 1,271 rulings on terminations, which, subtracted from the cumulative number of rulings, leaves 15,747 plans presumably still in effect.

—*Weekly Labor News Memorandum* (N. Y. State Department of Labor) 3/18/53

OUR NATIONAL DEBT: TOO HIGH FOR SAFETY?

How prosperous are the people of the United States? Should our prosperity be discounted because it has been accompanied by an increasing volume of debt —and, if so, to what extent?

It has been said that though an individual or nation can temporarily increase prosperity by borrowing, in so doing it lives on both borrowed goods and borrowed time. Are we now, perhaps, in that unenviable position?

On January 1, 1953, our total obligations—including the Federal Government's debt, debts of state and local governments, and corporate and individual debts—amounted to a staggering $627 billion. On its face, a debt of this magnitude, which represents about $3,900 of debt for each person, appears dangerous.

The burden of our debts, however, depends not merely on their size but in much more decisive degree on our capacity to carry the load successfully. This capacity, in turn, is partly a matter of attitude, and attitudes defy objective measurement.

Yet it is possible to throw some light on our capacity to carry the debt burden by studying key economic elements that can be measured with some degree of accuracy.

Compared with our national income, the total volume of our debts, public and private, is still well below the level of 1929, when it proved to be too big for the good of the country. Our total debt is now 113 per cent greater than the national income, whereas in 1929 it was 146 per cent greater. While it took 8 per cent of our total national income to carry our debts in 1929, it takes only about 5 per cent today. Moreover, individuals and corporations now hold a total of $269 billion in cash or its equivalent—almost twice as much as the portion of private short-term debt that is subject to sudden demand for payment.

In view of these facts, many students of the subject reach the comfortable conclusion that our debt burden is nothing to worry about. In further support of this view they emphasize the fact that no important part of our debt is owed abroad.

Actually, however, the nature of our debts presents dangers it would be foolish to ignore.

Public debt can be dangerous because government has the power to print money or to create its equivalent by expanding bank credit. The federal government borrowed over $90 billion from banks during World War II. This was the largest single factor contributing to the inflation of prices that since the war has robbed the buyers of government bonds of about half the purchasing power these bonds were supposed to represent. It is quite possible that in another emergency the government might again be forced to resort to the inflationary process of relying on bank credit.

Private debts can be dangerous if people take on new obligations more rapidly than is justified by the growth of business or by their ability to repay. Last year bank loans increased almost twice as much as did the volume of business over the same period. Installment credit for consumers increased by $3 billion last year, the fastest rate of such growth in our history.

When private credit expansion begins to run ahead of business growth, it is time for us to be wary. Such credit expansion courts price inflation. It also

creates a forced draft under business so that, if credit is cut off, there may be a painful drop.

At the moment, the level of debt in the United States does not seem to be a real danger to our prosperity. Yet both the total amount of debt and the recent rapid increase in total private debt, especially the latter, are enough to signal for caution. We need restraint on the part of business and consumers to avoid expanding private borrowing at an excessive rate. The federal debt needs to be reduced and put in more manageable form. If these things are done, we can proceed to build a sound prosperity.

—From an editorial by the *McGraw-Hill Publishing Company.*

HOW PENSION FUNDS ARE INVESTED

THE GROWTH OF pension funds over the past ten years has been one of the most spectacular developments in recent financial history. Today the assets of these funds are estimated at over $10 billion, compared with something like $750 million at the time of Pearl Harbor. Moreover, another $2 billion or so will probably be added within the year.

There are no definite figures on how many pension funds are now in operation. One large insurance organization figures there were between 15,000 and 16,000 pension funds of all types in operation at the end of 1952, and estimates that insurance companies alone are handling some 12,260 plans covering 3,260,000 people. It seems probable that 80 per cent of all dollars put aside by pension plans are administered by insurance companies.*

Most pension payments made to insurance companies, under insured plans, end up in bonds, mortgages, and the like. This is just as true today as it was in earlier years, before laws were passed giving the life insurance trade greater latitude in buying stocks. Few large life companies have cared to use even these limited discretionary powers to the full.

In a nationwide survey made by *Business Week*, most of the replying companies felt that in the long run the life companies would be the safest place to lodge their funds, though it might prove the most expensive. As one executive said: "Common stock holdings would lower our yearly payments at times, via higher yields and capital appreciation. But bull markets aren't permanent."

Although the life companies handle four-fifths of the pension funds, several very large uninsured funds include preferred and common stocks in their investments. Between $1.5 billion and $2 billion are now held in trusteed plans, whose managers are far more stock-minded than most insurance companies. Actually, more pension money is going into stocks than many people realize. Some experts estimate $500 million annually, mainly in common stocks. Others guess around $400 million; some go still lower.

* Taking issue with this estimate, Roger F. Murray, vice president of the Bankers Trust Company, New York, comments: "Insurance companies undoubtedly handle a substantially larger number of plans, but we believe that they handle only 40 to 45 per cent of the dollars involved."—ED.

There is no average investment pattern among the non-insured funds. No two companies setting up plans seem to think exactly alike; neither do trustees. Thus, in Dallas one prominent bank puts as much as 40 per cent of the funds it handles into commons, while its chief rival sticks to 25 per cent.

In general, the First National Bank of Chicago has found, large corporations with sizable pension funds are willing to have about one-third invested in common stocks. It finds two important factors behind this willingness:

1. The long-term nature of the trust. The fund should never have to liquidate investments under adverse conditions, since income and annual contributions are supposed to take care of all out-payments.

2. New cash is being paid in on a regular basis. Consequently, stocks can be bought in declining markets as well as when prices are high. Cost over the years should reach a satisfactory average.

—*Business Week*, March 21, 1953, p. 128:2.

Are Pension Costs Going Up?

A NEW mortality table for judging the funding of private retirement plans, recently developed by Ray M. Peterson of the Equitable Life Assurance Society, is attracting wide attention among pension trust executives. An 18-month study of group annuity experience led to the compilation of the new table.

The principal findings of the study are that life expectancy is greater than provided for by earlier tables and that consequently many private retirement plans need to be re-examined to insure that their reserves are adequate. For example, it shows that of a group of 1,000 males aged 35 and actively employed this year, 833 may be expected to survive to age 65. This compares with older annuity tables now in use as follows: Combined Annuity Table, 685; Standard Annuity Table, 718; Standard Annuity Table set back two years, 752.

The study further showed that in 1983, when these 833 reach age 65, they will still have an average life expectancy of 16.75 years. Earlier mortality tables put this figure at approximately 13 to 14½ years. Moreover, the life expectancy of persons covered by private retirement plans appears on the basis of the study to be greater than that of the general population.

The lengthening life span will increase pension costs about 5 per cent every 10 years, the new mortality table shows. Under the 1937 Standard Annuity Table, with 2½ per cent interest, an employer would allow $5,284 for a pension of $1,000 a year for a male employee aged 45 and expected to retire at the normal age of 65. On the new basis, at the same interest rates, his fund should be $6,509.

A booklet describing the table is available gratis from Equitable Life Assurance Society, 393 Seventh Avenue, New York 1, N. Y.

—*Insurance Advocate* 3/14/53

IN THE SOCK: The United States, which has been known as a nation of spenders, has become a nation of savers. Savings of the American public climbed past the $200 billion mark for the first time last year, according to the United States Savings and Loan League. From 1945 to the close of 1952, the people of this country socked away nearly $63 billion. Savings associations and life insurance companies led with the greatest increases among the principal savings media, according to the League.

—*Commerce* 3/53

WHAT'S AHEAD IN WAGE ESCALATION?

THOUGH automatic wage adjustments for living-cost changes have a long history, the rapid spread since June, 1950, of collective bargaining agreements containing cost-of-living escalator clauses represents a new development in wage determination in the United States.

It has long been recognized that a connection exists between money wages and the prices of goods that workers need to live. Plainly, any substantial change in the general level of consumers' prices will affect the determination of money wages. In periods of substantial price movement, moreover, reference to cost-of-living changes is often decisive in determining the content of the wage bargain. In such periods, unions, and perhaps also employers, have often attempted to protect their wage position by concluding short-term contracts or by providing for wage reopenings prior to contract expirations.

The escalator clause is a particular way of making wage adjustments to take account of changes in living costs. However, significant differences exists between escalation and the negotiated change. A unique characteristic of the escalator clause is its automaticity: even comparatively minor changes in the level of retail prices become associated with wage-rate adjustments. Also, for the duration of the contract, an escalator clause introduces an element of uncertainty, for both the union and the firm, with respect to the level of wages.

The future of wage escalation will clearly be affected by the extent to which labor and management conclude comparatively long-term agreements in which escalation is joined to periodic rate increases based roughly on average productivity gains in the economy. The advantage of this type of contract to the workers is the assurance of regular gains in real wage rates; management, on the other hand, avoids the uncertainties and costs of frequent contract negotiations and may achieve greater freedom for technical innovation.

Agreements relating to considerably more than half of the workers now covered by escalator clauses do not contain provisions for periodic "improvement factor" wage increases. The duration of almost all of these contracts is three years or less, and some have wage-reopening clauses.

Allowing for variations in timing, there is no clear evidence of any major difference in the relative magnitude of the wage adjustments in key bargaining situations through various escalation arrangements and through negotiation in the period since June, 1950. Over a more extended period, however, especially if there are significant fluctuations in the level of prices, differences in wage movement might develop as a consequence of the *form* of wage determination. This is perhaps most likely to occur in the event of a considerable decline in the level of consumers' prices.

Most escalation-rate adjustments appear to be applied uniformly in cents-per-hour across-the-board. In periods of rising prices, this procedure can result in a considerable narrowing in relative occupational differentials. In periods of falling prices, such differentials widen. If escalation continues to be used on a broad scale, this factor may require attention.

Moreover, under current escalation ar-

rangements, changes in the level of rates depend, in part, upon changes in the level of consumers, prices, independent of factors that might otherwise affect the wage position of the firm or industry. Particular firms or industries, in short, may experience output and product-price movements and move into competitive situations which might impair their capacity to meet adjustments required by escalation clauses.

The general problem of the interrelationship of wages and prices under widespread use of escalator clauses offers a broad field for investigation. In any event, experience during the next few years should help to clarify the role of escalation in the drama of the wage bargain.

—H. M. DOUTY. *Monthly Labor Review*, February, 1953, p. 126:4.

U. S. Consumers—What Are They Worth?

CONSUMER WEALTH in the U. S. has risen more than 50 per cent since the end of World War II, according to a recent Conference Board report. Consumers' holdings (cash, insurance, homes, business, etc.) are now in excess of $800 billion, with offsetting debts about $100 billion. The postwar rise in asset values reflects rising prices as well as a growth in real wealth.

Half the families in the United States now have a net worth of $7,500 or more, the Board estimates. One-sixth of all families own more than $30,000 in net assets, and fewer than one-tenth of all families have more debts than assets. Families who earn under $5,000 a year own nearly half the nation's wealth.

Twenty-nine per cent of consumer assets is in liquid form (cash and securities), 6 per cent in insurance equities, and the remainder in "fixed" assets. Owned homes have a market value in excess of $200 billion; home-owners' actual equities (after subtracting mortgages) amount to about $150 billion. Family automobiles are valued at about $40 billion, or at $35 billion after installment debts against the vehicles are subtracted. Television and radio sets, refrigerators, freezers, and the like add another $15 billion (before debts).

Employee Stock-Purchase Plans—A Survey

WHAT PROPORTION of American industrial firms provide stock purchase plans for their workers? A recent survey by *Mill & Factory*, covering 297 industrial firms of all types and sizes, found that 11 per cent of the firms replying have some plan under which workers may purchase company stock. Payment is made by direct purchase in 61 per cent of these firms, and by payroll deduction in the other 39 per cent.

In 65 per cent of the firms having stock purchase plans, less than one-fifth of the workers own company stock. In 9 per cent of the firms answering, however, half the employees are stockholders.

Stock is made available to employees at regular market value by 70 per cent of the companies. The others offer stock at some kind of discount. In all but 3 per cent of the firms, employees are not required to retain purchased stock for any minimum period before disposing of it.

—*Mill & Factory 3/53*

HE who lives for himself alone could be engaged in no smaller business.

—*Babson's Business Service 2/23/53*

The Controller's Role in Policy-Making

ONLY 25 or 30 years ago the title "Controller" was little known in business, and the function, as it is understood today, was almost nonexistent. Today, however, controllers participate to a significant degree in the making of company policy. Analysis of responses to a survey by the Controllers Institute shows that almost 60 per cent of the Institute's members regularly attend meetings of the board of directors of their companies, and 34 per cent are themselves directors.

Nevertheless, many controllers must still be provided with the tools necessary to accept the challenge of broader responsibilities, and educated in the use of these tools. Even after subtracting about 5 per cent of Institute members having status that may preclude policy-making responsibility, a substantial minority of about 35 per cent remains. Here, presumably, the controllership function could be more useful to the company if the right man were on the job with the right tools.

—WALTER MITCHELL, JR. in *The Controller* 2/53

Also Recommended • • •

A PROPOSAL FOR THE ADOPTION OF STANDARDS OF DISCLOSURE FOR CHANGING PRICE LEVELS. By Paul Grady. *The Journal of Accountancy* (270 Madison Avenue, New York 16, N. Y.), November, 1952. In recent years, the author points out, the decline in the dollar's purchasing power has resulted in highly misleading overstatements of earnings in corporate financial statements. Though not advocating the abandonment of historical costs as the basis for accounting, he suggests the adoption of criteria which can be used by accountants and management in disclosing the effects of inflation on the business enterprise, particularly in regard to changed inventory levels and depreciation adjustment.

THE PRICE OF UNSOUND BUSINESS TAXES. By Arthur W. Hepner. *Nation's Business* (U. S. Chamber Building, Washington 6, D. C.), February, 1953. This article sets forth the views of the U. S. Chamber of Commerce, the Tax Foundation, and the American Institute of Accountants on the need for federal tax reduction and the means by which it might be accomplished. The excess profits tax, the author believes, has caused many successful small businesses to sell out to larger firms, taking their profits as a capital gain.

THE INTERNAL AUDIT APPROACH TO BUDGETS. By M. B. T. Davies. *The Internal Auditor* (Institute of Internal Auditors, 120 Wall Street, New York 5, N. Y.), March, 1953. Qualitative standards to guide an internal auditor in appraising how well a company's budget is working for management are outlined in this article, a reprint of an address before the Dallas Chapter of the Institute of Internal Auditors. After describing how budgeting and auditing are inter-related media of financial control, the article lists specific questions an auditor can ask to determine the objectives of his audit of the budget, get it under way, and measure its effectiveness. The author recommends an analysis of the staff unit responsible for the budget: Is it logically placed in the organization? Does it keep open the channels of communication between the financial and the top operating levels? Does it issue timely, informative reports?

TRADE UNION INVESTMENT POLICIES. By Nathan Belfer. *Industrial and Labor Relations Review* (Cornell University, Ithaca, N. Y.), April, 1953. $1.25. As they have grown in membership and bargaining power, unions have also expanded in terms of financial resources. Discussing the experience of unions with various types of investment, the author asserts that union officials' over-cautiousness and lack of knowledge have led to such conservative investment policies as to result in a needless sacrifice of potential yield.

HOW TO BUILD AN INCOME FORECAST. By Richard J. Halloran. *N.A.C.A. Bulletin* (National Association of Cost Accountants, 505 Park Avenue, New York 22, N. Y.), March, 1953. Describing how forecasting is used as a management tool by a Pennsylvania manufacturer, the author shows how a recognition of the fact that the firm's sales volume was concentrated in certain products made possible a significant reduction in the amount of detail work involved. A brief outline of the company's 13-step forecasting procedure is included in the article.

Insurance Management

SPECIAL COVERAGES FOR UNUSUAL RISKS

When the operations of a profitable business are stopped, slowed down, or impaired by the action of the elements, the consequent loss of revenue can be insured by business interruption insurance. Most alert managements realize this; yet many companies who feel they are fully protected by business interruption insurance have overlooked the contingent relationship of their operations either to the source of their raw materials or to the market for their products. When a business is dependent entirely, or to a substantial degree, on either the output or intake of another plant, there is usually a need for contingent business interruption insurance.

Another important contingency is the manufacturer's dependency on outside sources for his supply of heat, light, power, gas, or water. The so-called "off premises power" coverage is vital to any such manufacturer. Many insurance programs designed for plants that have since relocated in semi-rural areas will bear re-examination in the light of possible new risks of this kind.

Often the corporation that is contemplating building a new plant will expend every effort to increase its capitalization, develop new markets and products, and scrutinize the tax advantages far in advance—but will wait until only a week or even a day before the new plant begins operations before requesting business interruption insurance to protect the anxiously anticipated new revenue. Yet during the whole time the plant was under construction, a single sweep of fate could have resulted in a delay costing a whole year's profits. Builders' risk business interruption insurance can be used to insure anticipated earnings from ground-breaking time to housewarming.

Without close cooperation between the insurance manager and operating officials of the corporation, the "once in a while" types of risks which management may feel obliged to take can expose the company to an expensive loss.

Recently a blast furnace in a large steel mill had to be jacked up and eased into a new location in the plant. Fortunately, the insurance manager saw a three-fold problem: First, the furnace itself could be damaged; second, the building could be damaged if the furnace fell; third, and most important, the mill could not operate without the furnace, and profits were in jeopardy. All three risks were insured under one policy, and the furnace was moved.

In another large plant, when the main generator broke down and had to be shipped to the original manufacturer for repairs, a two weeks' shutdown of the plant could not be avoided. The insurance manager asked the astute question: "How long will the plant stay closed if the generator is damaged while in transit?" An inland marine underwriter issued an all-risk business interruption policy to insure the loss of earnings that would have resulted in such an event.

The inland marine underwriter has made a substantial contribution in the simplification of detail necessary to insure

the complex risks of a manufacturer by the so-called manufacturers' output policy. After the insurance manager has made certain that the risks in his plant are adequately protected, he must consider the risks applicable to property away from the plant. These include stock in public warehouses and raw materials purchased f.o.b. seller's plant, parts or products in the hands of subcontractors for processing, patterns, dies, and merchandise in transit by rail, truck, or water. The complexities embodied in these present a wide variation of risks, currently being insured under separate policies, which can now in some instances be consolidated, including even the automobile fire, theft, and collison coverage, into one coverage—the manufacturers' output policy. While this insurance has not yet been approved in every state, it should soon be available nation-wide.

—From an address by RODNEY E. PIERSOL before the National Industrial Conference Board.

THE SMALLER BUYER LOOKS AT SELF-INSURANCE

THE PRACTICE of self-insurance, though intriguing to many insurance buyers, is unfortunately subject to considerable misapplication. The correct use of self-insurance is to a great extent governed by the buyer's size and physical and organizational structure.

For the smaller buyer who is contemplating self-insurance, careful study of these factors is of great importance. For our purposes, we shall view the smaller buyer as one who pays more than $15,000 but not more than $60,000 for all coverages except social coverages (i.e., disability insurance, compensation, and/or group insurance), or who spends more than $35,000 but not more than $170,000 for all insurance.

On examining the insurance hazards of the smaller buyer, we must consider each cover in the light of several factors. Among these are: (1) What premium is involved? (2) Can the hazard be assumed in its entirety without throwing any unusual strain on the self-insurance fund? If not, is it feasible to split the risk, self-insuring only a part of it? Will a clear division of risk exist, and will the premium savings be attractive?

Consider the following specific cases:

1. A buyer has an annual compensation premium of $50,000 divided among 12 states, of which not more than $10,000 is in any one state. He has a loss ratio of 45 per cent. Theoretically, it might appear that the premium is large enough for manipulation and that with sufficient excess cover he might well self-insure; actually, however, administration, service, and compliance cost would make such action unwarranted. If however, the same buyer had his full premium, or 90 per cent of it, in one state, the advisability of self-insurance might be seriously considered.

2. A buyer has an annual fire premium of $30,000, of which $22,000 covers a small group of manufacturing buildings, while the remaining $8,000 of premium is divided between two other locations. The likelihood here is that the buyer cannot afford to self-insure such a large value, because a loss would probably strain his financial resources. The loca-

tion cannot be divided, since it is really one or two fire areas. Furthermore, deductibles in either F.I.A. or Factory Mutuals would not result in sufficient savings to compensate for the risk assumed. It is true that individual classes of materials not susceptible to loss might be excluded from coverage, but such savings alone would be too small for consideration.

If, however, the same premium cost applied over several dispersed locations, the insured could separate high-rate from low-rate locations, and self-insure at high-rate locations where values are fairly low and where loss would not strain the carrying ability of the self-insurance fund. He could also formally underinsure at locations of slightly larger size, carrying the balance of the coverage in his self-insurance fund. Moreover, he could obtain more favorable rate consideration of a deductible for warehouse locations by inland marine underwriters.

3. A buyer has a plate glass premium of only $250. Unless restricted to only a few buildings, this could probably be safely and profitably self-insured despite the small premium, since catastrophe losses of most types would still be covered by fire, explosion, malicious mischief, etc.

Liability deductibles may appear attractive if adequate representation can be secured from the claim department of the regular insurance carrier. It is unlikely, however, that a small buyer could possibly afford to carry a deductible in excess of $1,000, or could profitably maintain an adequate organization to process and watch such claims.

It is evident that the small buyer is constrained by two considerations: (1) his inability to set up a fund on a practical basis to absorb anything but small losses, and (2) the necessity of seeking dispersal of risk.

Consequently, in most cases he cannot pick up the entire risk but must content himself with the fringe coverage. He must evaluate his risk and sometimes rearrange his entire program of formal insurance to permit the most strategic use of self-insurance without imperiling his over-all cover.

The small buyer should, however, religiously abstain from self-assumption of risk until he has established a formal self-insurance fund which cannot be drawn upon for any other purpose. The reasons for this are twofold:

Use of a formal fund involves appraisal of every risk and setting up adequate reserves therefor. Hence, it discourages indiscriminate self-insuring by requiring initial examination of every new item of self-insurance, and an annual reappraisal which reduces the possibility of an opening in the coverage.

Moreover, an adequate fund makes less likely an annoying squeeze if a sizable loss occurs at a time when the buyer's general cash reserves are low.

—A. LIEBERMAN. *Report of the Self-Insurance Committee* (National Insurance Buyers Association, New York Chapter, 1952).

HERE'S HOW 2,178 non-metropolitan families replied, in a recent *Household* magazine survey, to a query on insurance: 77.5 per cent carried Life; 59.3 per cent, Hospitalization; 44.6 per cent, Health or Accident; 85.5 per cent, Fire; 59.3 per cent, Tornado or Windstorm; 16.2 per cent, Burglary; 78.3 per cent, Liability and Property Damage (auto); 53.9 per cent, Collision; 53.0 per cent, Fire and Theft (auto).

—*The Spectator* 2/53

WHAT THE BUYER EXPECTS OF THE INSURANCE AGENT

SOME INSURANCE AGENTS and brokers feel that the increasing tendency in industry to employ insurance specialists is an encroachment on their own position. "Let your agency do your buying for you," they advise. "Save the salary of an insurance manager."

Yet prudent purchasing practice dictates otherwise. Insurance premium expenditures are sizable expense figures, and require the same close scrutiny given other expense items. Questions of coverage are even more important; following the ever-changing pattern of distribution of goods, valuations, acquisitions, new and changing liability exposures, and the like, requires expert, full-time attention. This is a major responsibility that can only be discharged by someone who has a complete knowledge of the corporation's affairs, including confidential information that often could not be divulged to an agent.

A major responsibility, however, still lies with the insurance agent.

The buyer expects the agent to plan and prepare. Before the interview, the buyer should acquaint himself with technical insurance information to the fullest possible extent, and the agent should likewise do advance thinking and make use of any knowledge he can gain about the account.

Since the buyer expects to be regarded as an independent insurance man, the agent who is constantly selling his bias for or against a particular form of insurance is making a serious mistake. The buyer is charged with the responsibility of carrying out his duties in such a way as to serve the best interests of his company, and the agent does not help him by applying high-pressure selling methods.

How often does the agent tell his client, "My companies have never done this," or, "The rules do not permit it"? If the request is reasonable, the buyer expects the agent to succeed in selling a particular coverage to the company even though it is a departure from usual practice. Moreover, he expects the agent to continue into the less attractive commission markets if necessary.

It goes without saying that the agent should be well acquainted with that part of the business which he services. Some day, perhaps, the large insurance buyer will work from a complete map of his insurance exposures prepared by the agent.

The buyer also expects the agent to be willing to incur expense in providing service on a risk. Good management is interested in loss prevention—but skilled assistance is needed from the agents. Inspections are a usual type of service, but they do not fully answer industry's needs for more expert advice on program matters so that loss prevention can become more a part of daily operations.

—K. A. BONG. *Rough Notes*, March, 1953, p. 38:3.

WHEN fidelity blanket bonds were first brought out, in the late 1920's, the minimum premium was $625 for one year. Today, in spite of high taxes and inflation, the same bond can be bought for approximately $150 per year on a three-year basis. Furthermore, the 1953 bond form is very much broader than the original form.

—*The Insurance Field*, Fire-Casualty Edition, 1/23/53

Downtrend in Auto-Insurance Rates

AUTOMOBILE INSURANCE rates have been rising sharply since World War II, for two major reasons: (1) Courts have been handing out sky-high judgments in accident cases; and (2) the accident rate itself has gone up alarmingly, notably among young drivers (28 per cent of all drivers involved in fatal auto accidents in 1951 were under 25). As the rates went up, independent auto-insurance firms began cutting their rates. Now a number of big companies are getting ready to meet the competition by concentrating on the worst traffic offenders of all: young drivers.

The Mutual Insurance Rating Bureau, which represents some 30 companies, has filed new "preferred risk" rate schedules in 11 midwest and western states. Adults who drive less than 7,500 miles a year get a 20 per cent rate cut; parents who keep their youngsters' part-time driving down to 25 per cent of the yearly mileage receive a 9 per cent cut. On the other hand, young drivers who take out their own policies and have no parental supervision will have to pay a 30 per cent hike in rates.

The Allstate Insurance Co., Chicago, third largest of the independent companies, has cut premiums on cars driven by high-school youths in 44 states by 15 per cent, provided each youngster completes an auto safety course of 30 classroom hours and six hours behind the wheel. While more than 6,000 of the nation's 25,000 high schools offer such courses, only 350,000 of 2,000,000 students who come of driving age each year take them.

—*Time* 4/20/53

Cutting Fire Premiums with Automatic Sprinklers

COMPANIES that install automatic sprinkler systems usually find that they pay for themselves in five to ten years through lower fire insurance premiums. Often the insurance savings range from 40 per cent to 85 per cent—and after the sprinklers are amortized this premium reduction means a substantial saving year after year.

Records show that 68.9 per cent of all fires in sprinklered property are practically or entirely extinguished by the sprinklers, and an additional 27 per cent held in check.

Moreover, the combined water-fire damage in sprinklered property is less than the potential fire damage in unsprinklered buildings. In 35 per cent of fires, only one sprinkler head is activated; in 72.6 per cent, fewer than six sprinkler heads operate. As soon as a sprinkler goes into action, the local fire company is automatically summoned. Consequently firemen are on hand to turn off the sprinkler when the fire is extinguished.

—*Management Methods* 3/53

ACCIDENT BILL: On the average, a construction firm doing an annual business of $1 million, with a payroll of $400,000, will suffer a total of eight on-the-job accidents per year, according to the Associated General Contractors of America. The cost, direct and indirect, will total $42,000—but claims paid by the insurance company will average $14,000 of this amount, leaving $28,000, or 7 per cent of the total payroll, to be charged to the additional expense of accidents. Another study shows that for every dollar the insurance company pays out on an industrial accident claim, the average cost to the employer exceeds $4.20.

—*Operations Report* (Research Institute of America, Inc., 292 Madison Avenue, New York 17, N. Y.) 2/24/53

Also Recommended • • •

THE MEDICAL INSURANCE WE NEED MOST. By Peter F. Drucker. *Harper's Magazine* (49 East 33 Street, New York 16, N. Y.), May, 1953. Only about one illness in five, this article points out, is too long to be covered by available insurance policies; yet the cost of such prolonged illness amounts to about one-half of the nation's total medical bill. The need for catastrophic illness insurance, the author believes, must soon be met; and the most satisfactory answer may well involve the participation of the Federal Government in a plan that would protect the low-income family without risking the pitfalls of "socialized medicine."

MAJOR MEDICAL EXPENSE. By Benjamin Lorber. *Best's Insurance News* (75 Fulton Street, New York 38, N. Y.), April, 1953. In this article, the administrator of a comprehensive insurance program covering over 3,000 families in 30 states analyzes the economic and sociological aspects of the major medical expense problem and outlines what he considers an ideal major medical expense plan. This would provide coverage for all medical bills, regardless of where incurred or the number of visits involved, subject to a deductible of $100 for each disability and a 75 per cent coinsurance factor.

TAKING THE GAMBLE OUT OF PENSIONS. By Geoffrey N. Calvert. *Public Utilities Fortnightly* (Munsey Building, Washington 4, D. C.), March 26, 1953. $1.00. To meet the problem of minimizing the effects of inflation on pensions, the author suggests that the investment of pension funds equally in fixed-dollar obligations and in common stocks can go far toward eliminating the "gamble" on living costs.

WORKMEN'S COMPENSATION 1910-1952: ARE PRESENT BENEFITS ADEQUATE? By Harold A. Katz and Estelle M. Wirpel. *Labor Law Journal* (214 North Michigan Avenue, Chicago 1, Ill.), March, 1953. 50 cents. Discussing, in some detail, the experience of Illinois employers and employees under the workmen's compensation laws, a regional attorney for the United Auto Workers and a staff member of the University of Chicago's Industrial Relations Center conclude that workmen's compensation benefits, measured in real terms, have declined even while real earnings and other employer labor costs have risen markedly.

MORE PRODUCTS LIABILITY COVER BEING BOUGHT THAN IS SOLD. By Leonard Milstead. *The Weekly Underwriter* (116 John Street, New York 38, N. Y.), March 28, 1953. Claims for damages allegedly sustained from the use or consumption of products away from the manufacturer's or dealer's premises are becoming increasingly burdensome. The author examines the effects of such claims on insureds as well as insurers, with special reference to provisions of the Uniform Sales Act and the law of implied warranty.

WHY YOUR AUTO INSURANCE COSTS SO MUCH. By Vance Packard. *The American* (640 Fifth Avenue, New York 19, N. Y.), May, 1953. Automobile insurance is currently costing Americans $3 billion annually, says the author—a larger sum than is spent each year on all highway construction within the U. S. Citing other equally startling facts, he suggests that a merit system, under which drivers with good safety records might receive discounts on their premiums, would be a logical step toward the reduction of accidents and the eventual lowering of insurance rates.

COMPULSORY AUTO INSURANCE. *Best's Insurance News* (75 Fulton Street, New York 38, N. Y.), April, 1953. A comprehensive and thoughtful review of the problem of the uncompensated accident victim, and the various remedies that have been proposed for its solution. Reviewing the experience of compulsory insurance in Massachusetts and evaluating other approaches that have been tried in Canada and the U. S., the article concludes that safety responsibility legislation, supplemented by some type of unsatisfied judgment scheme, offers the best hope of a just and effective solution.

ACCIDENTS last year killed 96,000 Americans and injured 9,700,000 others, for a total cost of $8.3 billion (including property damaged, wages lost, medical and insurance costs, etc.).

—*The Insurance Field* 2/20/53